IN FISCAL 2004-05, LCBO NET
SALES WERE $3.5 BILLION, 6.4
PER CENT HIGHER THAN THE
YEAR BEFORE. OPERATING
EXPENSES DROPPED FROM
16.6 TO 16.4 PER CENT OF NET
SALES. AS A RESULT, THE
LCBO INCREASED ITS
DIVIDEND TO GOVERNMENT
FOR THE ELEVENTH STRAIGHT
YEAR. NOT INCLUDING
TAXES, THIS DIVIDEND
TOTALLED **$1.115 BILLION**

LCBO **ANNUAL REPORT 2004-05**

THE ANNUAL REPORT

Under the *Liquor Control Act*, the LCBO is required to prepare an annual report to the Minister and the Treasurer of Ontario. The Minister submits the report to Cabinet and tables it in the Provincial Legislature. This document is first and foremost a formal record of the LCBO's financial performance for the past fiscal year; however, it also provides an overview of the Ontario beverage alcohol marketplace.

MEMBERS OF THE LCBO BOARD

(DURING FISCAL 2004–05)

Andrew S. Brandt, *Chair and Chief Executive Officer*

Philip Olsson, *Vice Chair; Member, Audit and Governance Review Committee*

Jean Simpson, *Member; Chair, Audit and Governance Review Committee*

Linda Bramble, *Member; Member, Audit and Governance Review Committee*

Bev Hammond, *Member*

Gayle Christie, *Member; Chair, Audit and Governance Review Committee (term expired June 2004)*

Perry Miele, *Member (term expired April 2005)*

Bob Peter, *President and Chief Operating Officer*

LETTER OF TRANSMITTAL

The Hon. David Caplan
Minister of Public Infrastructure Renewal

Dear Minister,

I have the honour to present you with the 2004-05 Annual Report of the Liquor Control Board of Ontario.

Respectfully submitted,

Andrew S. Brandt
Chair and Chief Executive Officer

CREDITS

The LCBO wishes to thank the members of the Audit and Governance Review Committee of the Board for their assistance in preparing this document. This report is also available at *www.lcbo.com*, under About LCBO.

Produced by LCBO Corporate Communications.

Financial information prepared by LCBO Financial Planning & Development. French adaptation by LCBO French Language Services.

Ce rapport est également publié en français sous le titre : Rapport annuel de la LCBO 2004-05.

MESSAGE FROM THE MINISTER

As Minister of Public Infrastructure Renewal, with responsibility for the LCBO, I am pleased to provide you with the LCBO Annual Report for the fiscal year 2004-05.

Reporting to my Cabinet colleague, the Honourable Joseph Cordiano, who previously held responsibility for the LCBO, the agency worked during fiscal 2004-05 to meet the expectations of government, customers, taxpayers and other stakeholders.

As you will read in the pages that follow, the LCBO exceeded its plan by delivering a dividend of $1.115 billion to the province, excluding taxes, to support health care, education and other government priorities, programs, and services.

It also continued to lead in promoting social responsibility, improved service and product selection to customers, supported the efforts of the Ontario wine and craft beer industries to build market share, and introduced new programs to help reduce waste and preserve Ontario's environment.

During fiscal 2004-05, the government, under its Strategic Asset Management initiative, reviewed a number of provincial assets, including the LCBO, to ensure the public is well served and that taxpayers receive the maximum benefits from these assets.

The government concluded the greatest value could be achieved by maintaining public ownership of the LCBO. That said, the government expects the LCBO will further improve by:

- making operations even more efficient and cost-effective;
- contributing to the success of Ontario's domestic beverage alcohol industries;
- being governed according to the highest standards of transparency and accountability;
- helping to preserve Ontario's environment by reducing package waste; increasing diversion rates; improving all aspects of environmental management; reducing consumption of energy and utilities; and promoting re-use and conservation;
- continuing to work on its own, and in partnership with others, to promote responsible drinking and discourage high-risk activities such as drinking and driving, while maintaining vigilant responsible service to prevent sales to minors and intoxicated adults; and
- increasing revenues to government.

As the Minister responsible, I will work closely with the LCBO Board, staff and trade partners to ensure the LCBO continues to focus on making improvements to meet the expectations of its customers and the taxpayers of Ontario.

Sincerely,

The Honourable David Caplan
Minister of Public Infrastructure Renewal and
Minister responsible for the Liquor Control Board of Ontario (LCBO)

MESSAGE FROM THE CHAIR AND CEO

The LCBO increased its dividend to government for the 11th straight year in fiscal 2004-05. At $1.115 billion, it was our 10th straight record dividend and second ever of more than $1 billion, not including taxes.

Thanks to the continuing efforts of its employees, management team and Board, and the support of our suppliers and government, the LCBO has transformed itself completely over these 10 record years. Every aspect of the shopping experience, from service to selection to social responsibility, has improved significantly over the past decade.

Guided by a rigorous long-term strategic planning process, and employing private-sector disciplines such as benchmarking, the LCBO has strived not just to be like other Canadian retailers but a leader in the field.

How far have we come towards that goal?

Ten years ago, in fiscal 1995-96, our net sales were $1.9 billion; operating expenses were 16.9 per cent of net sales; our dividend was $680 million, then a new record.

In fiscal 2004-05, net sales were $3.5 billion, an 83 per cent increase over 1995-96. Over the same time period, operating expenses dropped to 16.4 per cent of net sales. Our dividend of $1.115 billion was a 64-per-cent increase over 1995-96. Over this decade, our dividends to government totalled $8.62 billion.

We have invested in our store network to expand and renovate existing LCBO stores to current corporate standards. Guided by extensive customer research and market analysis, we have built new stores to meet the needs of urban and rural communities. The business case for each retail capital project is analyzed rigourously and must show a projected annual return of at least 12 per cent to proceed. A recent survey of 40 LCBO stores opened or relocated during the last five years shows this standard has consistently been met and often exceeded.

Our research shows that improved stores lead to more satisfied customers – and employees – as well as increased sales and greater efficiency.

Inside the stores, the changes have been equally dramatic. Every store across the province stages monthly promotions highlighting products from different geographical regions or product categories. Select stores also stage tastings and other programs to help customers discover the world of beverage alcohol, as our brand vision describes.

We have expanded training programs to help employees better inform customers about the products we sell and how they fit into a balanced lifestyle. All LCBO employees take mandatory product, service knowledge and responsible service courses, and many go on to become product consultants or specialists in the wines of Ontario, beer and spirits.

We have vastly improved the way product flows from suppliers to stores. We have worked with suppliers to develop new forecasting and replenishment processes; reduced excess inventory; trained employees in new product handling methods; and invested in a new point-of-sale system, Web-based ordering and other technology.

We have also worked with the Ontario wine industry and the government of Ontario on a strategy to help build market share for domestic products. We have helped pay the costs of municipalities that recycle glass and other liquor containers, contributing $30 million since 1998. At the same time we have raised an estimated $1 million a year for the United Way and other charitable causes. For several years, we have partnered with MADD Canada to launch high-profile advertising campaigns against impaired driving, and to develop Web sites and other materials that help parents talk with their children about alcohol.

We have indeed come a long way in 10 years. And we will continue to adapt and improve into the future.

At the time of writing (August 2005), the LCBO had just gone through two reviews, both announced in the 2004 provincial budget. One was the Beverage Alcohol System Review (BASR), convened by the government to examine the Ontario beverage alcohol marketplace, including the LCBO, The Beer Store and Ontario winery stores. The second was by the management consulting firm Deloitte & Touche, which the government commissioned to review LCBO operations only.

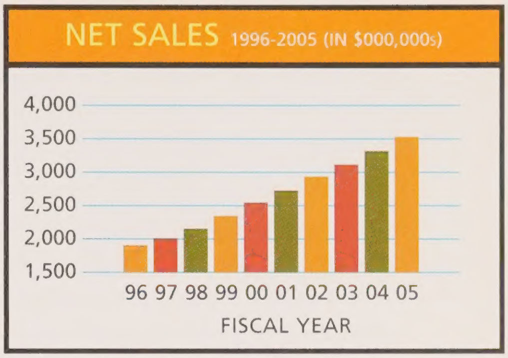
On July 18, the BASR panel recommended that the government withdraw from ownership and operation of the wholesale and retail beverage alcohol business. However, Finance Minister Greg Sorbara did not accept this recommendation, saying: "It is our very strong view that the public interest of Ontarians is best served by the continued public ownership of the LCBO.... The system is very well run. It is appreciated and liked across the province. It provides a high level of service and a high level of social responsibility.... When you look at what the LCBO has achieved, you see a major transformation to a very efficient retailer."

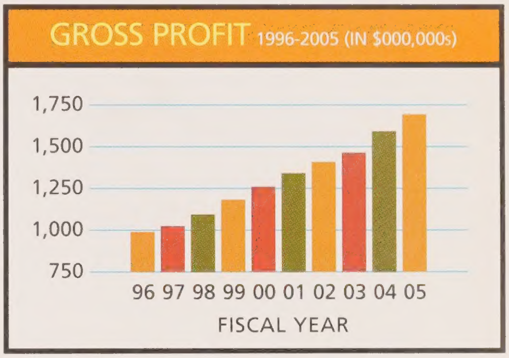
Deloitte & Touche came to a similar conclusion following its independent operational review of the LCBO in early 2005. Its review found that the LCBO is a well-managed organization that has successfully transformed itself into a modern retailer, while highlighting areas where the government could realize additional revenue by finding operating efficiencies and new revenue opportunities within the LCBO.

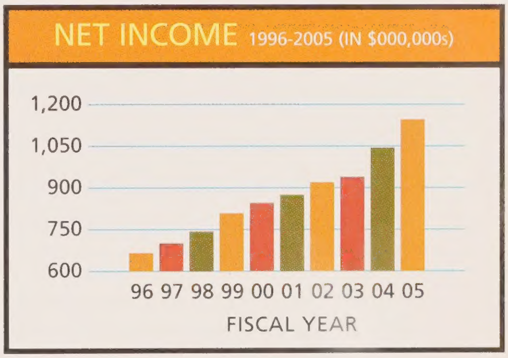
LCBO management, employees and Board Members recognize that the government's decision to maintain its role in beverage alcohol sales and distribution is not an endorsement of the status quo, but a call to further improve customer service, profitability and support of Ontario products, all in a socially and environmentally responsible way.

One thing our owners, customers and stakeholders can be assured of is that the LCBO will continue to embrace change as it has over the past decade, determined to remain a leader in Canadian retailing and customer service, a champion of social responsibility and environmental initiatives, and a reliable and ever-growing source of revenue for the government of Ontario.

Andrew S. Brandt
Chair and Chief Executive Officer
August 2005







MESSAGE FROM THE PRESIDENT AND COO

As an organization dedicated to meeting and exceeding the expectations of its owners, customers, taxpayers and industry partners, the LCBO monitors and measures its performance in key areas.

We benchmark our progress against detailed sets of strategic and business objectives and key performance indicators, which you can read more about in the Management Discussion and Analysis that begins on page 6. We also collect and analyze extensive data on customer and employee satisfaction and listen to feedback from stakeholders that include the government of Ontario, our suppliers, industry groups and social responsibility advocates.

External recognition from Canada's retail industry is another indication that our ongoing efforts to improve are paying off.

We recently received such recognition from two prominent industry sources: the Retail Council of Canada (RCC) and *Marketing* magazine.

On June 6, the RCC presented the LCBO with an Excellence in Retailing Award for improving the way we do business with suppliers. A week later, *Marketing* named LCBO one of Canada's 10 best-managed brands, based on a survey of subscribers to *Canadian Business* and *Marketing Daily*.

"This should not be a surprise: Over the past 15 years, it has reinvented virtually every element of its business to offer compelling value to its customers. As a public enterprise, it has shown remarkable competence…quite an accomplishment for a monopoly."

– Marketing magazine, June 13, 2005

The LCBO was the only government agency and provincially focused organization on this list, which included such marketplace leaders as Tim Hortons, Loblaw, Canadian Tire and Shoppers Drug Mart.

The RCC award recognized the LCBO's Collaborative Planning, Forecasting and Replenishment (CPFR) program, under which the LCBO, suppliers and agents jointly develop sales forecasts, and track and monitor forecasts versus actual sales.

Launched with 12 agents in 2003-04 as a pilot, the project grew in fiscal 2004-05 to include 18 agents. The suppliers they represent account for $840 million in net sales, 24 per cent of the LCBO's business.

CPFR has helped ensure a continuous stream of products to meet the LCBO's requirements. Improving forecast accuracy also helps reduce stock-outs, improve customer satisfaction, and increase sales and profits for the LCBO and its suppliers.

Its success shows what we and our industry partners can achieve when we work towards the same goal: having the right product in the right place for our customers.

As I write this in August 2005, we are nearly half way through our 2003-08 five-year strategic plan and the results thus far have been very positive. We have exceeded our goals in such key areas as sales, margin, expenses, net income and dividend to the government of Ontario.

To be sure, there are challenges ahead. There won't be an Easter weekend in fiscal 2005-06, while there were two in fiscal 2004-05. We will continue to feel the effects of the transfer of Moosehead and Carlsberg brands from the LCBO to The Beer Store.

But the LCBO has shown over the years that it is more than capable of adapting to change, always seeking new ways to better fulfill our mandate. Excellence, innovation, responsibility and knowledge are the four core elements of our brand personality. Half way through our long-term plan, they are in evidence throughout the LCBO.

Bob Peter
President and Chief Operating Officer
August 2005

CORPORATE STRUCTURE

The LCBO is a provincial government enterprise reporting to the Minister of Public Infrastructure Renewal. Its mission is: "To be a socially responsible, performance-driven, innovative and profitable retailer, engaging our customers in a discovery of the world of beverage alcohol through enthusiastic, courteous and knowledgeable service."

The LCBO has a Board of up to seven Members. They are appointed by the Lieutenant-Governor, through Orders-in-Council, on the recommendation of the Premier and the Minister of Public Infrastructure Renewal. Members are appointed for a term of up to five years. There are regular monthly Board meetings.

The mandate of the Board is to supervise the business affairs of the LCBO. Among its most important responsibilities are:

- ensuring that the LCBO provides high-quality service to the public
- developing and approving the strategic plan and monitoring management's success in meeting its business plans
- approving annual financial plans
- ensuring that the organization remains financially sound
- assessing and managing business risks
- submitting an annual financial plan to the Minister of Public Infrastructure Renewal
- ensuring the organization has communications programs to inform stakeholders of significant business developments
- ensuring that the LCBO performs its regulatory role in a fair and impartial manner.

Audit and Governance Review Committee

The Board has an Audit and Governance Review Committee whose members are elected annually by the Board. The committee is responsible for the reliability and accuracy of the LCBO's financial statements and for assessing the risks facing the organization and its management. It also reviews and advises on possible changes to the LCBO's corporate governance policies and practices, and ensures that the LCBO adheres to sound corporate governance principles.

Ethics and business conduct

Following a review of the LCBO's corporate governance practices, the Board approved a new policy for the conduct of the business of the corporation, which includes policies addressing conflict of interest, confidentiality, the outside activities of employees, officers and Members of the Board, gifts and entertainment, and human rights.

Health and safety

The Board approves an annual health and safety policy and ensures it is kept informed of health and safety issues through regular reports at Board meetings.

Store Planning and Development Committee

This management committee reviews real estate and leasing transactions and makes recommendations to the Board for final approval.

Listings Appeals Committee

This committee reviews appeals of denials of listing applications.

Accountability

The LCBO is accountable to its stakeholders in a number of ways, including:

- its Annual Report, required to be tabled in the Provincial Legislature and available to all Ontarians in print or online at *www.lcbo.com*
- Annual audits of the LCBO financial statements and periodic value-for-money audits – conducted by the Office of the Auditor General – as well as value-for-money audits of specific LCBO programs, including store planning, conducted by Internal Audit
- public access to records under the *Freedom of Information and Protection of Privacy Act*
- publicly appointed Board Members
- various statutory reporting requirements under the *Liquor Control Act* to the Minister and the Treasurer of Ontario
- compliance with Management Board's Agency Accountability Directives.

BEYOND THE NUMBERS 2004-05

HIGHLIGHTS (value in $000s)

	2003-04	2004-05	% change
Dividend to Government	$1,040,000	$1,115,000	7.2
Net Sales and Other Income	$3,320,681	$3,532,171	6.4
Operating Expenses	$548,778	$575,336	4.8
Net Income	1,045,428	1,146,810	9.7

Management Discussion and Analysis of Operations

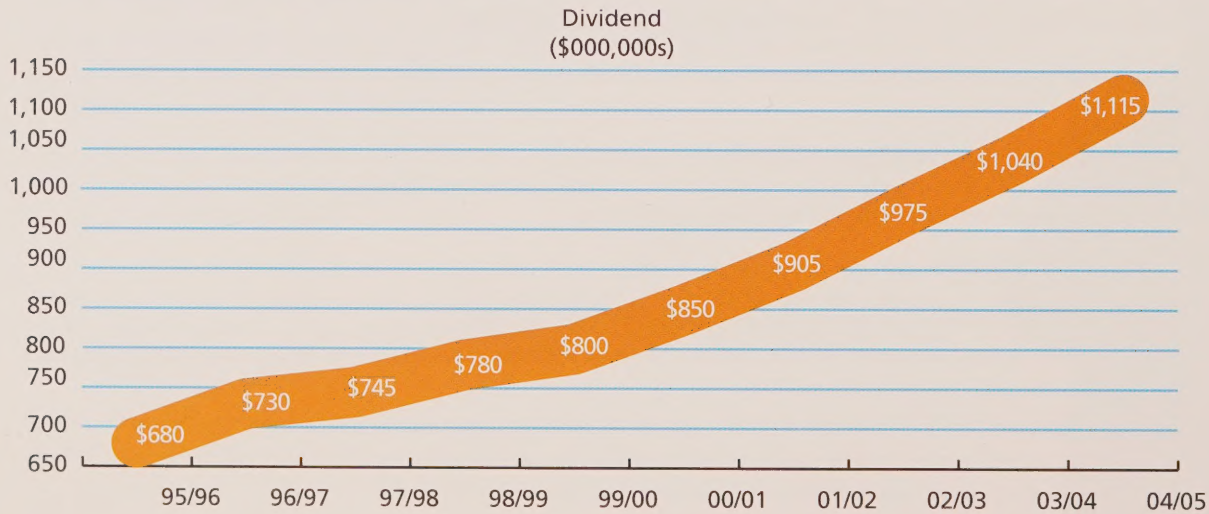
Canadian securities regulations require public companies to include a discussion of operating results in the annual report, along with annual financial statements. As a provincial government enterprise, LCBO is not subject to these regulations. However, we have included this discussion to increase understanding of our operations and ensure disclosure of our results to the widest possible audience. This section of the LCBO Annual Report explains the financial results for the past year and provides background for evaluating its performance.

Dividend

We transferred a record $1.115 billion dividend to the provincial government in 2004-05, excluding all taxes. This is a $75 million increase over last year. It was the eleventh straight year we have increased our dividend, our tenth straight record year and the second consecutive dividend of more than $1 billion.

The following table gives a 10-year history of LCBO dividends transferred to the government of Ontario.

Since 1995-96, the LCBO dividend has grown by 64 per cent or $435 million.



Government revenue disbursement

The LCBO dividend does not include Provincial Sales Tax (PST), which amounted to $329 million in 2004-05.

LCBO PAYMENTS TO GOVERNMENT

Dividend	59.2 per cent
Federal	22.7 per cent
PST	17.4 per cent
Municipal	0.7 per cent

These charts show how LCBO profits are shared between various levels of government and the breakdown of $1 in net sales.

BREAKDOWN OF $1 IN NET SALES

Product Cost	51.2 per cent
Net income	32.5 per cent
Retail and Marketing	11.0 per cent
Administration and Other	3.3 per cent
Warehousing and Distribution	2.0 per cent

LCBO's external environment

With sales growth of 6.4 per cent in fiscal 2004-05, LCBO doubled the average growth rate of 3.2 per cent for total retail sector sales in Ontario. Economic conditions in Ontario were favourable for beverage alcohol sales, with unemployment rates remaining below 7.0 per cent and economic growth at a respectable 2.6 per cent in 2004. According to a survey of five of Canada's government-run beverage alcohol systems, Ontario ranked first in sales volume growth and second, behind British Columbia, for net sales growth.

Sales by region

Three of LCBO's four retail regions surpassed their budgeted growth rates for net sales in fiscal 2004-05, the exception being the Western Region. Sales in the Eastern Region led the way, benefiting from the three-month strike at the Société des Alcools du Québec (SAQ). The estimated sales lift from the SAQ strike was $25 million.

The following chart shows how net sales in each region fared compared both to plan and the year before.

SALES BY REGION

Region	2004-05 (000s)	change from 2003-04	variance from plan
Northern	$427,348	5.2%	0.7%
Eastern	$732,706	9.5%	2.6%
Central	$1,073,337	5.6%	0.9%
Western	$817,728	5.4%	-1.4%

Same store sales

"Same stores" are defined as stores that have been open in their present location for more than two years. "Non-same stores" include stores open less than two years and closed stores. In 2004-05, non-same stores experienced a 28.4 per cent net sales increase over the year before, almost seven times the 4.4 per cent growth posted by same stores.

Sales by channel

LCBO retail sales, which we define as sales to home consumers, grew by 6.7 per cent over last year to $2.77 billion. Retail sales as a share of total LCBO sales increased slightly from 78.6 per cent to 78.9 per cent. This favourable result is welcome since retail sales provide the highest margin of any channel.

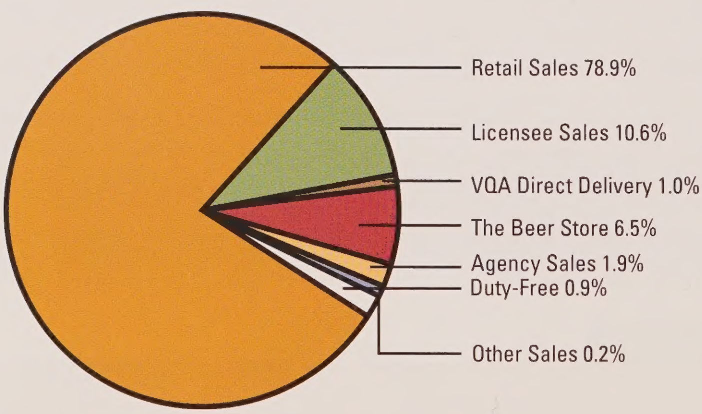
LCBO wholesale sales to The Beer Store (TBS) and licensees did not fare as well. Sales to TBS as a percentage of total LCBO sales decreased from 6.8 per cent to 6.5 per cent, due to the combination of poor weather, the NHL lockout and the transfer of distribution of Moosehead and Carlsberg brands from the LCBO to TBS. These products are now shipped directly from these suppliers as domestic products to TBS, rather than through the LCBO. As a result, the LCBO no longer records sales for these brands and is estimated to have lost $25 million in 2004-05. Continued strength in imported beer sales helped to maintain overall growth in the channel, with LCBO sales to TBS up 1.5 per cent from last year.

Licensee sales grew by 3.7 per cent in 2004-05, from $358 million to $371 million. However, licensee sales remain more than 4 per cent lower than the pre-SARS level of $381 million in 2002-03. The licensee industry, which comprises hotel and restaurant sales, was negatively affected this year by the NHL lockout and other factors.

LCBO sales to duty-free stores at land border points were relatively flat, growing 1.3 per cent over last year. This was almost $6 million below plan, due in part to the continued effects of the SARS scare and the weakness of the U.S. dollar. Duty-free sales growth has been dampened by continued weakness in the Ontario tourism market.

Agency sales grew by 19.6 per cent in 2004-05 to a total of $68 million with the opening of 13 new stores and increased awareness of existing stores. Agency stores now account for 1.9 per cent of LCBO sales.

BREAKDOWN OF LCBO SALES BY CHANNEL



The winery direct delivery program, which allows Ontario wineries to deliver their products directly to licensees instead of transferring them through the LCBO, continued to grow rapidly, increasing by 9.9 per cent in volume and 10.7 per cent in terms of net sales. In 2004-05, direct delivery sales represented 17.7 per cent of the total value of the licensee market for wine, compared to 16.4 per cent the previous year. Volume sales were 2.98 million litres, up from 2.67 million litres in 2003-04. Of this, more than one million litres were sold through the VQA replacement program, which was established in 2004-05 by the government of Ontario, the LCBO, the Wine Council of Ontario and the Grape Growers of Ontario to help Ontario wineries deal with the short grape crop that resulted from the harsh winter of 2003.

LCBO in the shared marketplace

The LCBO operates in a shared marketplace along with other retailers of beverage alcohol, including The Beer Store (TBS), which is owned by Molson-Coors, Labatt (InBev SA) and Sleeman's, Ontario winery retail stores (WRS), on-site brewery stores, agency stores, duty-free operators and on-site distillery stores. As of March 31, 2005, there were 1,685 outlets selling alcohol in Ontario.

Here is what the market looked like at March 31, 2005:

Note: When the LCBO's 597 stores and Ontario's 194 agency stores are combined, the total market share is approximately 46.9 per cent.

Changes in market share

The total Ontario beverage alcohol marketplace, which includes LCBO, TBS, WRS, as well as other legal, homemade, de-alcoholized beer and illegal channels, amounted to an estimated $8.0 billion in gross sales in 2004-05. The LCBO's market share by value increased from 47.8 per cent in 2003-04 to 48.6 per cent in 2004-05. Winery retail store sales grew by 7.1 per cent and increased market share to 2.5 per cent. The Beer Store lost market share in 2004-05, moving from 32.8 per cent to 31.3 per cent.

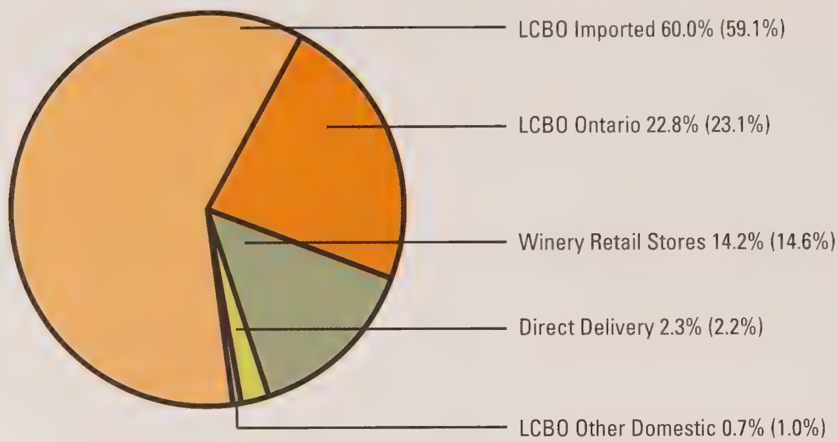
The total wine market in Ontario increased by 5.9 per cent in 2004-05 in terms of volume sales. Imports now hold a 60 per cent share of wines sold by the LCBO, up from 59.2 per cent the year before. Ontario and other domestic wine sales, sold both through the LCBO and through winery retail stores, declined from 39.9 per cent to 39.4 per cent. This was due in part to the short grape crop of 2003, which led to fewer VQA wines being produced. The continued growth in New World wine sales contributed to the increase in imported wine share.

Direct delivery Ontario wine sales increased in terms of market share, from 2.2 per cent to 2.3 per cent, a continuing effect of the 1999 policy change that allowed domestic wineries to deliver products directly to licensees.

Beer sales in Ontario grew by 1.2 per cent by volume in 2004-05. LCBO beer sales grew by 3.3 per cent, excluding sales to TBS, compared to 0.8 per cent sales growth for TBS. As a result, LCBO's beer market share increased from 16.5 per cent in 2003-04 to 16.9 per cent in 2004-05, while TBS's market share declined from 83.5 per cent to 83.1 per cent during the same period. Consumers' tastes for premium and imported products contributed to the sales improvement at the LCBO.

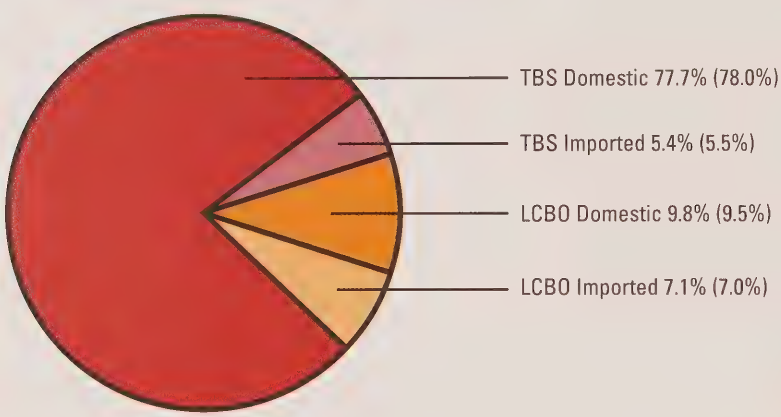
WINE VOLUME MARKET SHARE 2004-05

(2003-04 SHARE IN BRACKETS)



BEER VOLUME MARKET SHARE 2004-05

(2003-04 SHARE IN BRACKETS)



OPERATING RESULTS

Net Income

Net income grew by 9.7 per cent in 2004-05 to $1.15 billion, compared to $1.05 billion in 2003-04 and the plan number of $1.11 billion. This strong result was due to the combination of better-than-expected sales and gross margin returns, and tight controls that restricted total expense growth to just 4.8 per cent, lower than the planned growth rate of 5.4 per cent.

Gross Margin

Gross margin improved during the year as a result of lower than expected sales of lower-margin products, such as beer and coolers, as well as consumers trading up to premium products, higher sales through the retail channel and levy changes from the May 2004 provincial budget. These factors contributed to a 7.9 per cent increase in gross margin, from $1.571 billion to $1.695 billion. Gross margin also exceeded plan by 1.9 per cent. Expressed as a percentage of net sales, gross margin improved from 47.6 per cent to 48.4 per cent.

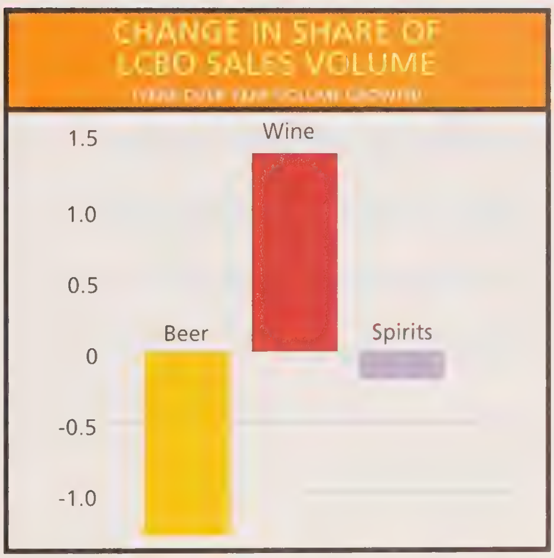
The May 2004 provincial budget included several changes to LCBO's markups. These included a 25-cent-per-litre increase in the volume levy applied to spirits and a nine-cent-per-litre increase in the volume levy for wine and spirit coolers. The wine levy increased by 12 cents per litre and the basic fee for beer by 4.5 cents per litre. The growth rate of the gross margin was also supported by an increase in the spirits floor price, from $20.75 to $21.25 for 750 mL, instituted in 2003-04.

The trend of the last several years towards premium products continued in 2004-05, which helped to increase LCBO's gross margin. For spirits, products priced higher than $30 for a 750 mL bottle increased by 9.2 per cent during the year compared to a decrease of 0.4 per cent for other spirits products. Premium wine, defined as having a price of $15 or more, increased by 11.7 per cent, compared to 5.4 per cent for other wines. The trend toward premium products extends to beer as well, but this has no effect on LCBO margins because beer markups are flat: they do not change along with the product's value (ad valorem), as is the case with wine and spirits. Nor is there any effect on LCBO margins from a countervailing trend to domestic value-priced beers, which grew by 14.4 per cent in volume and 13.5 per cent in value in fiscal 2004-05.

Wine was the largest contributor to the increase in the gross margin, accounting for 46.2 per cent of the increase. Spirits accounted for 40.7 per cent, beer for 12.9 per cent, and non-liquor products for the remainder. LCBO receives the highest margin per dollar of net sales on its spirits products at 56.4 cents per net sales dollar, while wine and beer margins per net sales dollar are 48.7 cents and 35.9 cents respectively.

Wine sales volumes as a share of total LCBO sales volume increased from 27.5 per cent to 29.0 per cent, while spirits decreased from 24.6 per cent to 24.4 per cent. Beer volumes decreased from 47.9 to 46.6 per cent of total volume sales, due to the shift in distribution of Moosehead and Carlsberg brands to The Beer Store. However, improvement in higher-margin wine and spirits products helped to offset the impact of this change on LCBO's margin.

Note: These margin numbers include sales through VINTAGES and therefore may not agree with business unit margins in the Product Trends sections of this report.

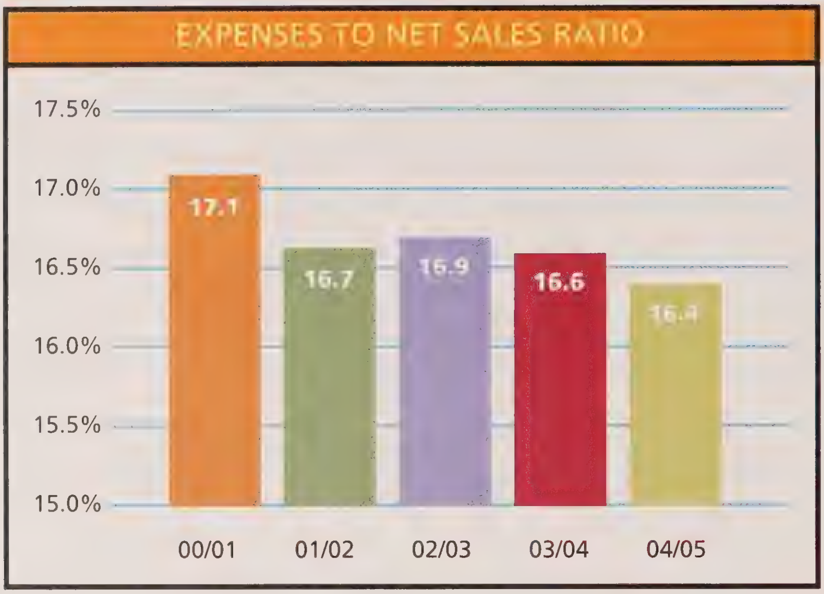


Expenses

Expense control improved in 2004-05, as LCBO's expenses-to-net-sales ratio decreased from 16.6 per cent to 16.4 per cent. Overall expenses were $575 million compared to $549 million the previous year.

Head office expenses came in 10.8 per cent below budget, growing by just 2.1 per cent. Warehouse expenses increased by 5.9 per cent to $45.6 million, 1.3 per cent above plan, largely due to increased deliveries to stores to support our Supply Chain initiative, which is directed toward improving product flow and reducing inventory investments. Store expenses grew by 6.5 per cent to $347 million, 3.1 per cent above plan, due to higher than expected labour costs in stores and salaries associated with implementing a new point-of-sale system known as the Integrated Store Environment (ISE). This allows the LCBO to offer electronic gift cards and other customer conveniences expected of a major retailer. The system, which also improves the LCBO's sales audit functions, required stores to bring in extra staff while managers and other employees attended training sessions.

Expense control improved in 2004-05, as our expenses-to-net-sales ratio decreased from 16.6 per cent to 16.4 per cent.

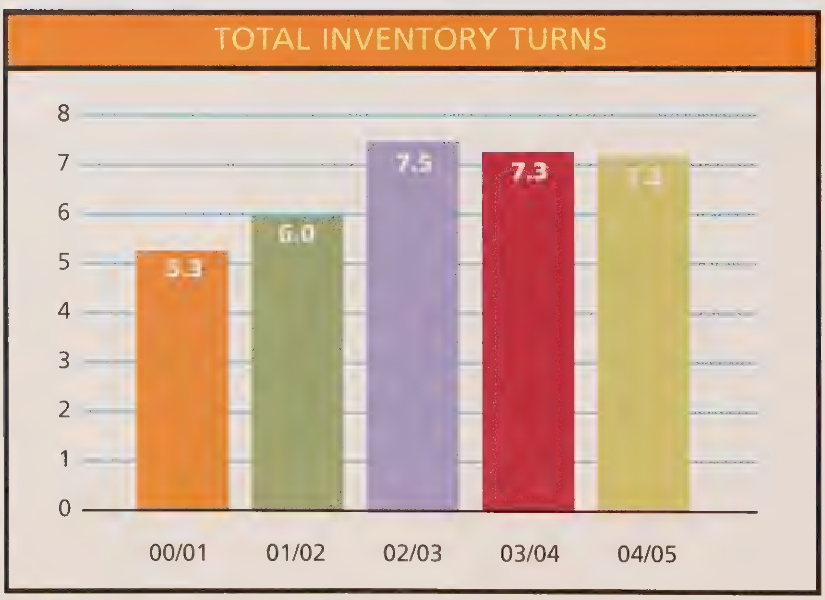


Inventory turns

Total inventory turns weakened slightly during the year, falling to 7.2 turns from 7.3 last year, and were under the planned turnover of 7.4. The decline was due to slow sales of high-volume beer products during the summer months and the move of 6.6 million litres of Moosehead and Carlsberg brands out of our warehouse system. Beer inventory turns fell from 15.7 to 14.5 and wine turns fell from 6.4 to 6.3, while spirits turns increased from 8.2 to 8.3. VINTAGES inventory turns increased from 2.3 to 2.4 due to improved efficiency of movement through LCBO warehouses.

Wholesale inventory turns including VINTAGES held steady in 2004-05 at 11.2, but were lower than the 11.5 planned figure. Retail inventory turns of 14.3 in 2004-05 were lower than both the 14.5 figure posted last year and the 14.6 figure planned for 2004-05.

Inventory turns remain well above pre-2002-03 levels, when a concerted effort to reduce inventory levels by flowing product more efficiently was first undertaken.



Financial and operating ratios

Income statement ratios in 2004-05 compared favourably to last year.

Total operating expenses met expectations at 16.4 per cent of net sales and improved from last year's result of 16.6 per cent. Administrative expenses stayed at 1.5 per cent of net sales, the same as last year and better than the planned ratio of 1.6 per cent. Operating expenses also improved from last year, from 12.2 per cent to 12.1 per cent. These improvements are attributed to higher net sales resulting from a shift to more premium and higher-margin products and improved expense control during the year.

Gross margin as a percentage of net sales exceeded both last year's ratio (47.6 per cent) and plan (47.8 per cent), growing by 0.6 percentage points to 48.4 per cent. This favourable result is due to a reduction in sales of lower-margin beer and cooler products and an increase in higher-margin spirits and wine products, as well as the increase in volume levies from the May 2004 provincial budget.

Net income as a percentage of net sales rose one full percentage point to 32.7 per cent, 0.9 per cent better than plan. This was due to enhanced margins and tighter expense control.

Productivity ratios

To help track expenses and identify where improvements are occuring or are needed, LCBO sets targets for many productivity ratios each year. For example, the store expenses-to-sales ratio shows what percentage of net sales is needed to pay retail expenses such as salaries, store rents and other expenses. A declining store expenses-to-sales ratio means that employees are becoming more productive.

RETAIL – FINANCIAL AND OPERATING HIGHLIGHTS

	00-01	01-02	02-03	03-04	04-05
Store salary to sales	7.8%	7.3%	7.3 %	7.1%	7.0%
Store expenses as a percentage of sales	11.0%	10.3%	10.4%	10.3%	10.4%
Store salary per unit sold	$0.87	$0.80	$0.77	$0.78	$0.76
Store expenses per unit sold	$1.22	$1.12	$1.10	$1.13	$1.13
Unit sales per hour	25.5	28.7	31.5	32.3	[illegible]
Sales per customer	$27.86	$28.10	$28.51	$29.38	$30.80
Sales per square foot	$1,693	$1,752	$1,755	$1,800	$1,859

Results for the productivity ratios were mixed. Performance by the retail channel was somewhat more favourable than the warehouse channel.

Store salaries as a percentage of net sales improved to 7.0 per cent in 2004-05 from 7.1 per cent in 2003-04, but came in slightly weaker than the plan of 6.8 per cent. Store salaries per unit sold met the planned value of $0.76 and improved from last year's $0.78. This favourable result is attributed to strong retail sales that offset a 4.4 per cent increase in salaries during the year resulting from cost of living increases and additional staff required to backfill during training for the ISE project.

Store expenses as a percentage of sales were 10.4 per cent and store expenses per unit sold were $1.13. Both were weaker than the plan numbers of 10.1 per cent and $1.12, respectively, due in large part to higher than expected labour costs related to the implementation of the ISE project.

Sales per customer improved significantly over the last five years, rising from $27.86 to $30.80 in 2004-05, which beat the target of $30.69. These results highlight the trend toward higher-quality products. Space rationalization helped sales per square foot increase by almost 10 per cent over the last five years, rising to $1,859 in 2004-05.

Both warehouse cost per case ratios (total expenses and salaries) rose during the year. Compared to 2003-04, warehouse salary cost per case increased by $0.08 to $0.90 while warehouse total cost per case rose by $0.08 to $1.11. Distribution cases per hour also weakened from 64 in 2003-04 to 62 in 2004-05 and missed the target of 63. These unfavourable results are the result of the change in the distribution of Moosehead and Carlsberg products, described on page 8.

LOGISTICS – FINANCIAL AND OPERATING HIGHLIGHTS

	00-01	01-02	02-03	03-04	04-05
Warehouse salary cost per case	$0.76	$0.77	$0.83	$0.82	$0.90
Warehouse cost per case	$0.95	$1.00	$1.10	$1.03	$1.11
Logistics cases per hour	64	64	66	64	62
Logistics cost per case handled	$0.57	$0.59	$0.64	$0.62	$0.66
Freight expense per case	$1.16	$1.11	$1.26	$1.40	$1.52
Inbound freight as percentage of sales	2.0%	1.9%	2.2%	2.5%	2.6%
Outbound freight as percentage of sales	0.6%	0.6%	0.7%	0.7%	0.7%

Capital expenditures

As part of our five-year strategic initiative to help customers *Discover the World* of beverage alcohol, most of the capital budget was again allocated to upgrading more retail stores to current corporate standards. Logistics capital expenditures declined significantly as we completed the expansion of our London warehouse and upgrading of other warehouses in 2004-05. Retail capital expenditures have now slowed somewhat as renovations and store openings in the largest markets have largely been completed.

CAPITAL EXPENDITURES (IN $000s, NUMBERS ROUNDED)

($000s)	00-01	01-02	02-03	03-04	04-05
Retail	37,614	30,813	45,497	31,896	27,981
Retail Store Development and Real Estate	2,370	644	1,072	351	1,639
Information Technology	7,375	14,259	12,758	6,877	6,917
Logistics	2,066	3,493	11,848	10,158	6,487
Marketing Programs	1,231	1,730	1,565	1,130	1,311
Other Administrative Divisions	5,033	4,795	2,321	3,022	3,128
Total Capital Expenditures	55,689	55,735	75,061	53,434	47,465

Looking ahead

The 2005-06 fiscal year is expected to be one of continued improvement. Net sales are forecast at $3.7 billion, 4.9 per cent higher than 2004-05. Gross margin is forecast to improve by 4.3 per cent to $1.8 billion. This strong growth is expected despite the fact that there will be no Easter weekend during the fiscal year, while there were two in 2004-05. Each Easter weekend adds roughly $15 million to LCBO revenues. Nor will sales be lifted by an SAQ strike as they were in 2004-05, although sales in the Eastern Region continue to trend higher since the strike.

Sales growth is expected in all product categories except domestic beer, which will continue to feel the impact of the transfer of distribution of Carlsberg and Moosehead from LCBO to TBS for the first several months of the year.

Gross margin as a percentage of net sales is forecast to be 48.1 per cent, slightly lower than the 2004-05 rate of 48.4 per cent, due to ongoing changes in product mix.

Operating income is forecast to rise by 4.2 per cent to $1.2 billion. This will be achieved through continuing sales initiatives and ongoing expense control.

Ongoing inventory reduction programs and efficiency gains in the flow of product through the LCBO warehouse and retail store systems should help increase inventory turns. Retail inventory turns are forecast to rise by 0.3 turns to 14.6 per year and warehouse turns by 0.5 turns to 11.7 per year.

The LCBO's dividend to the government of Ontario is forecast to increase for a 12th straight year to a new high of $1.170 billion, $55 million higher than in 2004-05.

STRATEGIC PLAN UPDATE

Discover the World 2003-08

In 2003, the LCBO launched a new five-year strategic plan and brand vision, *Discover the World*, designed to help educate customers about beverage alcohol, with friendly, knowledgeable employees serving as their tour guides. It set six key objectives:

1. To increase customer satisfaction
2. To promote the responsible use of beverage alcohol
3. To maximize returns to the people of Ontario by generating a total of $5.14 billion in dividends over five years (2003-08)
4. To develop and improve collaborative relationships with suppliers
5. To promote the growth of Ontario wine sales
6. To increase employee satisfaction

The following sections show how LCBO has worked to achieve these objectives to date.

1. TO INCREASE CUSTOMER SATISFACTION

Key initiatives: LCBO worked to improve customer satisfaction during fiscal 2004-05 by continuing to build new stores and renovate and relocate older outlets; conducting informative and engaging in-store promotions; offering more in-store product sampling (e.g., Thursday night tastings); implementing a new point-of-sale system to speed transactions at checkouts, enable quicker product searches, and provide a platform for electronic gift cards and other future initiatives; training employees to offer more knowledgeable advice about beer, wine and spirits; offering more gifts and electronic gift cards; and further improving supply chain practices and increasing deliveries to ensure stores offer shoppers the products they want.

Results: Every year, the LCBO commissions an in-depth Customer Tracking Study by an independent firm to gauge customer satisfaction. It is based on interviews with 2,400 people across Ontario who describe themselves as the primary LCBO customer in their household. In 2005, 78 per cent rated their shopping experience as eight or higher on a 10-point scale, compared to 73 per cent in 1998-99, when the study began. Fewer than one per cent said they were dissatisfied with the LCBO. Four out of 10 said the LCBO was one of their favourite places to shop.

2. TO PROMOTE THE RESPONSIBLE USE OF BEVERAGE ALCOHOL

Key initiatives: More than 1.4 million people were challenged at checkouts because they appeared underage or intoxicated. Working with MADD Canada, LCBO launched a public awareness campaign built around a 30-second TV commercial entitled "Heroes," which celebrated people who prevented friends from driving after drinking. A Web site was developed jointly by LCBO and MADD Canada to help parents talk with their kids about alcohol. Another campaign provided young people, their parents and educators with tools and information to help ensure safe proms. A Good Host kit, containing a range of sample-size toiletries, was made available to people who might have unexpected overnight guests after a party. As a responsible retailer, the LCBO initiated a new environmental strategy to reduce package waste; increase Blue Box recovery of LCBO containers to 80 per cent from 64 per cent; fully integrate responsible environmental stewardship into the LCBO's management culture; reduce utility consumption by 10 per cent; and promote reduction and reuse while helping to preserve Ontario's natural heritage. The LCBO contributed $5 million in fiscal 2004-05 to help fund municipal Blue Box programs (contributions to date since 1998 total $30 million), and raised nearly $1 million for provincial and national charitable organizations through its donation box program, employee United Way campaign, in-store tasting program and other measures.

Results: Tracking studies show LCBO commercials have a strong impact on their audiences. On the last three LCBO/MADD TV commercials aired in Ontario, between 77 and 88 per cent of viewers said watching them would make them likelier to take action to stop a friend from drinking and driving. Similar numbers said they would be more accepting of friends attempting to stop them from drinking and driving.

In a Corporate Reputation Study conducted in 2005 by Leger Marketing, the LCBO placed 15th out of the top 100 companies in Ontario, well ahead of other retailers such as The Beer Store, Wal-Mart and The Bay. According to the study, two-thirds of Ontario residents have a good opinion of the LCBO and feel it is a good company. People who had shopped at the LCBO in the past few months were particularly happy with it: 96 per cent of those who had made a recent purchase said they had a good opinion of the LCBO.

LCBO social responsibility initiatives in 2004-05 included a poster encouraging young people to celebrate prom night safely; a Good Host kit for people who might have unexpected overnight guests after a party; and a new four-bottle Envirobag that reduces waste and raises funds for environmental projects

3 TO MAXIMIZE RETURNS TO THE PEOPLE OF ONTARIO BY GENERATING A TOTAL OF $5.1[illegible] BILLION IN DIVIDENDS OVER FIVE YEARS (2003-08)

Key initiatives: The LCBO surpassed its key financial goals for fiscal 2004-05 by growing its business in a responsible manner. Key factors were: increasing efficiency of the supply chain that brings products from suppliers to stores; growing sales at a faster rate than labour costs; trading more customers up to premium products in all categories; promotions that increased sales of spirits, the most profitable category; a boost in wine sales in Eastern Ontario due to the 11-week strike at Quebec's SAQ; a solid return on investment in new and upgraded stores; volume levy increases implemented in the May 2004 provincial budget; and controls that drove down expenses as a percentage of net sales.

KEY INCOME TARGETS (VALUES IN $000,000s)

Indicator	Target	Achieved	Fulfilled
Sales	$3,484	$3,505	100.6%
Margin	$1,664	$1,695	101.9%
Expenses	$579	$575	100.6%
Income	$1,107	$1,146	103.5%
Dividend	$1,065	$1,115	104.7%

4 TO DEVELOP AND IMPROVE COLLABORATIVE RELATIONSHIPS WITH SUPPLIERS

Key initiatives: LCBO expanded its Collaborative Forecasting and Replenishment Program, under which the LCBO, suppliers and agents jointly develop sales forecasts, and track and monitor forecasts versus actual sales; made more programs and services available online to agents and suppliers; developed an 18-month promotional calendar that helps suppliers plan ahead for promotions that feature their products; held a summit meeting with suppliers to devise ways to increase customer interest in spirits and cocktails; increased its collaboration with suppliers on environmental initiatives; invited agents and suppliers to the LCBO Strategic Management Conference and other LCBO conferences to present their products.

Results: Product flow continued to improve in 2004-05. In-stock position of the most popular products increased in each of the last four years, from 89.2 per cent in fiscal 2001-02 to 91.8 per cent in fiscal 2004-05. Promotions such as *Shake it Up* and *Whisky Rocks* boosted sales of spirits by a combined $8.1 million and profits by $4.4 million and have been honoured with awards for Excellence in Retailing and Retail Marketing (2004) by the Retail Council of Canada. The RCC also honoured LCBO in 2005 with a Retail Technology award for proving that investing in technology can significantly improve delivery of service and profitability.

LCBO works closely with suppliers like Corby Distilleries Ltd. to improve the way product orders are forecast and replenished.

5. TO PROMOTE THE GROWTH OF ONTARIO WINE SALES

Key initiatives: LCBO stages a major promotion of Ontario wines every fall to increase awareness of their value and versatility. Employees have been trained as Ontario wine ambassadors – known internally as WOW (Wonderful Ontario Wine) Leaders – to inform customers and colleagues alike about Ontario wines. LCBO has also increased the amount of shelf space devoted to Ontario wines; promoted select "Ontario Superstars" in every sales period; brought new VQA discoveries to the attention of VINTAGES shoppers; and worked with the government of Ontario, the Wine Council of Ontario and the Grape Growers of Ontario to help Ontario wineries deal with the short grape crop that resulted from the harsh winter of 2003.

LCBO ONTARIO WINE NET SALES (IN $000s)

Year	Net sales	Previous Year	Change
2002-03	$212,514	$204,185	+4.1%
2003-04	$228,180	$212,514	+7.4%
2004-05	$243,337	$228,180	+6.6%

NUMBER OF ONTARIO WINERIES

2000-01	2001-02	2002-03	2003-04	2004-05
95	109	109	123	128

6. TO INCREASE EMPLOYEE SATISFACTION

LCBO initiated a number of programs to increase employee satisfaction. These include product training that helps retail employees take greater responsibility for sections within their stores; Supply Chain initiatives that reduce product handling; leadership development programs for store managers and assistant store managers; and improvements to the point-of-sale system that eliminate or reduce tasks that take employees away from their primary function: providing knowledgeable and responsible service to customers.

Results: The most recent LCBO Employee Attitude Survey, conducted in the summer of 2004, showed significant improvement over previous years. The overall grand mean satisfaction score increased from 3.21 to 3.36 on a five-point scale. The consulting firm that conducted the confidential survey, Watson Wyatt Canada, said it was the largest one-year increase recorded by any of their clients. Some of the greatest improvements came in the most important areas, such as: understanding of the LCBO's five-year plan; its business performance; and the steps it is taking to achieve its strategic and business goals. Fifty-six per cent of respondents said they would be happy to spend the rest of their careers at the LCBO.

Giving employees better training and increased responsibilty for sections within their stores has raised employee satisfaction at LCBO to higher levels

PRODUCT TRENDS

WINES

Mission: To provide our customers with an exceptional selection of quality wines at affordable and approachable prices.

WINES AT A GLANCE

Sales in 2004-05: $959 million
Increase over year before: $90 million (9.4 per cent)
Increase over plan: $9.6 million (1.0 per cent)
Margin dollars: $480 million
Increase over year before: $13.5 million (10.8 per cent)
Key trend: Continued growth in wines from top market share regions, especially those in the $10-$12 price range; ongoing growth in popularity of red wines.

Sales in the Wines business unit grew by a record 9.4 per cent over 2003-04 to a total of $959 million, 1.0 per cent over plan. (Its previous best growth rate was 8.1 per cent in 2003-04.) Volume sales increased by 5.9 per cent to 93 million litres. The discrepancy between the two growth rates shows that customers continue to move up to premium products, as does the growth in wines priced between $10-$12 (up 22.2 per cent in dollars). This far outstripped the growth rate of wines priced under $8 (2.6 per cent) and wines priced between $8 to $10 (8.2 per cent).

Key factors in the unit's success this year were:

- continued growth in wines from top producers Australia, Ontario and Italy
- exceptional growth from emerging markets like Spain, Portugal, South Africa and Chile
- increased sales in premium price bands
- ongoing growth in red wine sales (up 13.6 per cent vs. 6.8 per cent for white wines)
- stunning success of "concept wines" such as Yellow Tail shiraz
- a strike at the Société des Alcool du Québec (SAQ) that resulted in increased wines sales in LCBO stores in Eastern Ontario.
- a thematic promotion called *France ooh la la!* that helped slow a decline in sales of French wine.

The Wines business unit has three distinct categories: Ontario, New World and Europe. Here's how each fared in 2004-05.

Ontario: Net sales of Ontario wine grew by 7.6 per cent to $231 million; volume sales grew 5.5 per cent to 28 million litres. Margin dollars exceeded last year by 10.8 per cent and plan by 2.8 per cent. Fewer VQA wines were available in 2004-05, resulting in lost opportunities to trade customers up to premium Ontario wines. VQA wines grew by 6.0 per cent, compared to 10.6 per cent for non-VQA varietal wines, a reversal of the pattern of recent years. (For more information on how the LCBO works with the Ontario wine industry to build market share, please see page 19.)

Ontario ended the year with a 30.1 per cent market share, by volume, of still table wines sold through the LCBO (but excluding VINTAGES), roughly the same as last year. By value, that share was 24.1 per cent.

New World: New World wine sales grew by 19.4 per cent in dollars and 17.3 per cent in litres, paced by Australia (31.5 per cent growth). Australia, which now accounts for more than half of New World wine sales in LCBO stores, sits second only to Ontario in terms of table wine sales to the LCBO: $179 million vs. Ontario's $231 million. (It was in fifth place as recently as 2000-01,

behind Ontario, France, Italy and the U.S.) Australia owes its success primarily to red wines made in a fruit-forward style consumers enjoy, at prices they consider good value. Some 75 per cent of Australian wines sold in LCBO stores are reds.

One key to Australia's success in fiscal 2004-05 was a new brand called Yellow Tail. Rarely has one brand taken the market by storm as Yellow Tail did, recording $33.5 million in sales. If Yellow Tail were a country, it would have been the seventh largest supplier to the LCBO, well ahead of Spain, Portugal, South Africa or Germany. Priced under $12, however, Yellow Tail did restrain the unit's ability to trade customers up to higher price points.

Yellow Tail is considered a concept wine, a new trend that sees easy-drinking wines packaged in ways that are non-traditional, even offbeat, and where the brand defines the product more than the wine itself. This trend is expected to continue in 2005-06.

Australia's market share at year end was 19 per cent.

Here's how other New World producers fared in fiscal 2004-05.

- **United States**, up 2.0 per cent to $58 million and a 6.1 per cent market share
- **Chile**, up 9.4 per cent to $46 million (4.8 per cent market share)
- **South Africa**, up 24.4 per cent to $22 million (2.3 per cent market share)
- **British Columbia** up 9.1 per cent to $6.9 million (0.7 per cent market share)
- **Argentina**, up 25.8 per cent to $6.5 million (0.7 per cent market share)
- **New Zealand**, up 38.5 per cent to $5.4 million (0.6 per cent market share).

Europe: Sales of European wines were flat to last year in dollars and down 1.7 per cent in litres. The two biggest contributors to this set by far were France and Italy.

Italy grew its sales by 5.1 per cent to $141.5 million and has now passed France to sit third behind Ontario and Australia as a supplier to the LCBO Wines business unit. The central and northern regions of Italy have emerged as the most significant in the set, with sales of $82.7 million and $52.6 million respectively.

France, whose wine sales have been declining both in Ontario and internationally, ended the fiscal year with sales of $129.6 million, a marginal 0.8 per cent decrease over the year before. That decline would likely have been sharper were it not for a February promotion called *France ooh la la!* Featured products grew by 65 per cent during the month-long promotion; French wines as a whole by 35 per cent. The strike by employees at Quebec's liquor board, the SAQ, contributed an estimated $6 million (not including VINTAGES purchases) as shoppers from Quebec visited LCBO stores in Eastern Ontario in search of French wines and other products.

Southern Europe, which includes Spain, Portugal and Greece, grew by 7.2 per cent to $26 million, primarily due to the success of Spanish reds (up 11.1 per cent) and Portuguese reds (up 18.2 per cent).

German wine sales were largely flat to last year at $12.3 million.

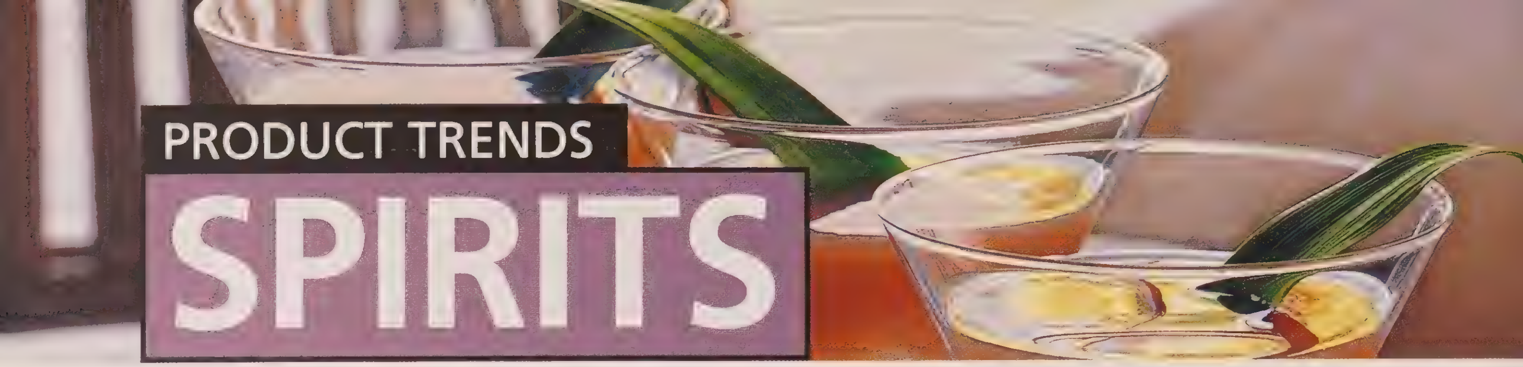
Eastern Europe, which includes Hungary, Bulgaria, Croatia and Yugoslavia, declined by 4.9 per cent to sales of $6.5 million.

Other trends to watch:

- While imported fortified wines are declining as a whole, Port from Portugal rose by 10.6 per cent in both dollars and litres
- Imported sparkling wines grew by 3.6 per cent in dollars and 1.0 per cent in litres, the same rates as the year before
- Ontario sparkling wines grew by 2.5 per cent in dollars but declined by 1.2 per cent in litres; Ontario fortified wines increased by 4.4 per cent in dollars and 3.7 per cent in litres
- Flavoured wine drinks (made with wine, carbonated water and fruit flavouring) declined 2.3 per cent in Ontario, mirroring a similar drop in other markets.

OUTLOOK FOR 2005-06

- overall sales are projected to rise by 7.3 per cent to $1.03 billion
- Ontario wine sales are projected to rise by 7.3 per cent to $248 million
- New World wines are projected to rise by 15.5 per cent to $401 million
- European wines are projected to remain flat to this year at $379 million
- margin dollars are projected to rise by 7.0 per cent to $514 million.



PRODUCT TRENDS

SPIRITS

Mission: To maximize long-term profitability for the LCBO.

SPIRITS AT A GLANCE

Sales in 2004-05: $1.37 billion
Increase over year before: $68 million (5.2 per cent)
Increase over plan: $26 million (1.9 per cent)
Margin dollars: $793 million
Increase over year before: $44 million (5.9 per cent)
Increase over plan: $18 million (2.3 per cent)
Key trends: Strong growth in whiskies (especially Irish and American), liqueurs, vodka, rum and tequila

Sales in the Spirits business unit grew by 5.2 per cent over 2003-04 to a total of $1.37 billion, the best rate of growth in four years and higher than plan by 1.9 per cent. This was an important accomplishment for Spirits, which leads all LCBO business units in sales, margin dollars and rate, profit contribution and average price per unit sold.

Spirits account for just 15 per cent of litre sales but 41 per cent of net sales and 47 per cent of margin dollars. Its margin rate of 58 per cent was well above the corporate rate of 49.8 per cent.

These factors helped spur the growth of spirits in 2004-05:

- **Promotions:** Two promotions that debuted in 2003-04 – *Shake it Up* and *Whisky Rocks* – were repeated this year to encourage consumer interest in cocktails and other spirits. Prior to the summer *Shake it Up* promotion, spirit sales had been flat to the year before. They rose during the promotion and stayed strong the rest of the fiscal year. *Whisky Rocks*, held in October, built momentum for whiskies from the major producing nations going into the holiday season. *Shake it Up* is estimated to have increased spirit sales by $4.7 million, and profits by $2.4 million; for *Whisky Rocks*, those figures are $3.8 million and $2 million respectively.
- **Cocktails:** The rise in popularity of cocktails was a key driver of growth. LCBO capitalized by offering customers quick, easy recipes that have been taste-tested by experts from LCBO and the spirits industry.
- **Premium products:** The strategy to encourage customers to try premium products has worked well. Most of Spirits' sales growth came in premium and deluxe price bands. Premium brands were up 7.2 per cent and deluxe brands were up 9.9 per cent. Standard brands, by comparison, were up just 0.8 per cent.
- **Innovation:** Intriguing new flavoured products, especially those that make good cocktail ingredients, were well received by consumers. Some 14 per cent of Spirits' annual growth came from 85 new products introduced in 2004-05.
- **Gifts:** Spirit-based gift packs – 82 offerings compared to 79 in 2003-04 – grew only slightly (0.7 per cent) as many customers opted instead to buy electronic gift cards, which were available in all LCBO stores for the first time this holiday season.

- **Supply:** Improved inventory flow helped ensure stores had the products customers wanted, when they wanted them, especially during the holiday season.
- **Supplier collaboration:** LCBO suppliers helped drive growth in Spirits through their support of promotions and tie-ins to on-premise activities.

All segments within the business unit grew. The strongest growth came in two whiskey segments, American (up 11.3 per cent) and Irish (up 10.6 per cent), and in tequila (up 15.6 per cent). Other segments that did well in fiscal 2004-05 included:

- Vodka (up 8.1 per cent over the year before)
- Rum (up 6.4 per cent)
- Liqueurs (up 6.3 per cent)
- Scotch whisky (up 3.3 per cent)
- Canadian whisky (up 2.7 per cent).

The increase in Canadian whisky was particularly significant, given its relative importance in the category. About 28 per cent of all spirit sales come from Canadian whisky, while other segments with higher increases, such as Irish and American whiskies, hold much smaller category shares (0.4 per cent and 1.3 per cent respectively).

Duty-free spirit sales, which had declined by 12.9 per cent in 2003-04 due to reduced travel between Canada and the U.S., rebounded in 2004-05 with a 2.1 per cent increase.

The highest rates of growth were for premium and deluxe products in higher price bands. Excluding gift packs and duty-free sales, premium and deluxe products accounted for 94.5 per cent of the business unit's growth over the previous year.

Domestic spirits increased 4.0 per cent in value, 4.8 per cent in margin, and 1.2 per cent in litres. The fact that sales and margin increased at a faster rate than litre sales shows that customers were trading up to more premium products.

Imported spirits increased by 7.0 per cent in value, 7.5 per cent in margin and 4.4 per cent in litres. These figures also reveal a trend toward premium products.

OUTLOOK FOR 2005-06

- sales are projected to rise by 2.8 per cent to $1.41 billion
- margin dollars are projected to rise by 2.6 per cent to $814 million
- domestic sales are projected to rise by 1.1 per cent, margin dollars by 1.0 per cent
- import sales are projected to rise by 5.3 per cent, margin dollars by 5.1 per cent
- holiday sales are projected to rise by 1.6 per cent to $15 million
- vodka, liqueurs and rum will continue to drive sales growth.

PRODUCT TRENDS

BEERS & SPECIAL MARKETS

Mission: To be a performance-driven and profitable business unit, fulfilling the diverse needs of our customers through easy to shop layouts, knowledgeable staff, and an assortment of world-renowned international beers and innovative Party Zone products.

BEERS & SPECIAL MARKETS AT A GLANCE

Sales in 2004-05: $844 million
Increase over year before: $10 million (1.2 per cent)
Increase over plan: -$35 million (-4.0 per cent)
Margin dollars: $319 million
Increase over year before: $15 million (5.0 per cent)
Key trend: Strongest growth in beer is at two opposite ends of the price range: low-price discount brands and premium brands

The Beers & Special Markets (BSM) business unit includes beers, Party Zone products such as coolers and cocktails-to-go, and a variety of other sets such as kosher products, saké, cider and non-liquor items. The unit had a challenging year in 2004-05, posting its lowest growth rate in more than a decade. Among the key factors:

- Poor spring weather hampered sales of beers and spirit coolers, which traditionally rise in warmer weather. This affected sales to both retail and wholesale customers.
- The hospitality industry continued to experience adverse conditions, not least of which was the NHL lockout that depressed sales to licensees and The Beer Store.
- After a strong debut, low-carb beers dramatically tapered off. Sales at the end of the fiscal year were roughly half of what they were in September 2004, when they were first introduced.

Despite these challenges, BSM grew its business in several ways:

- It continued to improve its selection of international and domestic premium beers tailored to Ontario's diverse population.
- A new training program equipped retail employees in 100 of the LCBO's top beer-selling stores to act as local beer specialists, known as "Beer Guys" and "Beer Gals." This was modelled on a program known as WOW (Wonderful Ontario Wines) that created staff advocates for Ontario wines.
- Sales of cocktails-to-go soared, largely as a result of exciting new product introductions that capitalized on two key trends: the general revival of cocktails and the desire for convenience.
- New and renovated stores featured larger beer and Party Zone sections with more refrigerated space.
- Demographics continue to favour this business unit as hundreds of thousands of Echo Boomers come of legal drinking age each year. The 20-29 age group consumes more beer and coolers than other age groups; today's consumer tends to discover premium products at a younger age than past generations.

Four key categories accounted for 88 per cent of the unit's sales in fiscal 2004-05.

Imported non-U.S. beer: the largest contributor to beer sales (47.2 per cent), and one of the fastest growing segments (up 6.4 per cent over the year before). The LCBO offered 140 non-U.S. beers from 39 countries, including 17 countries from which The Beer Store carries no products. Beers from Belgium and Eastern Europe enjoyed the greatest growth.

Ontario beer: the second largest sales contributor in BSM (39.8 per cent of beer sales) grew by 3.6 per cent in fiscal 2004-05. Competitive pricing drove strong growth in value brands. About 150 Ontario beers were offered in LCBO stores in 2004-05, including popular brands from major producers, as well as craft beers from Ontario microbreweries.

Spirit coolers: A key contributor to Party Zone sales, spirit coolers declined by 4.6 per cent, and against plan by 12.6 per cent, due mainly to poor summer weather and lower sales to licensees, and now account for 16.6 per cent of the business unit's sales. Coolers made with wine and beer account for less than two per cent of the unit's sales.

Cocktails-to-go: Sales of these products – bottled versions of classic cocktails that include the Bloody Caesar, gin and tonic and the Cosmopolitan – grew by 20 per cent as a result of renewed interest in cocktails and well-received new product introductions such as mudshakes. They now account for 3.8 per cent of the unit's sales.

Other categories within the set include **out-of-province beer** (down 30.3 per cent, largely as a result of the transfer of Moosehead and Carlsberg brands to The Beer Store); **U.S. beer** (down 3.6 per cent); **saké/Asian wines** (up 24.1 per cent); **ciders** (down 3.9 per cent); **kosher products** (down 6.8 per cent); and **non-liquor products** (up 6.0 per cent).

OUTLOOK FOR 2005-06

- sales are projected to rise by 5.7 per cent to $892 million
- margin dollars are projected to rise by 2.8 per cent to $328 million
- LCBO's share of Ontario's beer market is projected to rise by 1.0 per cent
- a new strategy to showcase Ontario craft beers will be launched by the LCBO in partnership with the Ontario Craft Brewers
- improvements in product flow will help ensure optimum stock levels especially in peak selling seasons (summer and Christmas).

PRODUCT TRENDS

VINTAGES

Mission: To achieve $1 billion in sales over the next four years by giving customers the optimum assortment of fine wines and premium spirits with an intense quality focus at every price point and at every customer touch point.

VINTAGES AT A GLANCE

Sales in 2004-05: $189.3 million
Increase over year before: $13.3 million (7.6 per cent)
Increase over plan: -$7.3 million (-3.7 per cent)
Margin dollars: $80 million
Increase over year before: $4.6 million (6.1 per cent)
Increase over plan: -$4.9 million (-5.8 per cent)
Key trends: Oversupply of wine world-wide is moderating prices as customers seek value across all price points. There has been significant price resistance at the ultra-premium level. Wines in the $15-$20 range show the strongest growth. Wines from New World regions continue to outperform European wines.

Vintages is the fine wine and premium spirits department of the LCBO. In 2004-05, Vintages released 4,465 new products into the market, through a variety of channels, including retail releases, its *Classics Catalogue*, direct marketing programs and special events. Vintages' average retail price (per 750 mL) for red wine was $43.65; white wine $34.20; and spirits $112.20.

Vintages' sales grew by 7.6 per cent, above the LCBO's corporate rate of 5.5 per cent, but missed its plan numbers for net sales and margin, due mainly to:

- a severe decline in Australian red wine growth, primarily shiraz, at the premium level – down 40 per cent from last year
- a decline in sales of Italian red wine – down 17 per cent from the previous year
- the rise in value of the euro, which makes wines from France and Italy less competitive.

Vintages is primarily a red wine business. In fiscal 2004-05, 64.0 per cent of sales came from red wine; 20.0 per cent from white wine; 5.0 per cent from spirits; 3.1 per cent from VQA Icewine; 2.7 per cent from fortified wine; 2.5 per cent from Champagne; and the rest from other products such as rosé and gifts.

The growth of white table wine (9.5 per cent) outpaced red table wine (5.8 per cent) for the first time in several years. VQA Icewine had an outstanding year with sales of $5.9 million, up 17.7 per cent over the year before as a result of expanded promotions and improved assortment.

Vintages' largest share of sales come from France, Italy, Australia, the U.S. and Canada (79 per cent market share combined), followed by New Zealand, Portugal, Chile, Spain and Great Britain (15 per cent market share combined).

While France's share of the wine business in Ontario has been in decline, the LCBO's February promotion, *France ooh la la!*, was a great success in VINTAGES. VINTAGES devoted an entire release to French wines during the promotion to focus consumer attention on different wine regions, and to showcase the versatility and quality of French wines. Sales increased by 70 per cent during the promotion and caused a reversal in the downward trend.

Wines in the $15-$20 price band grew the fastest of any in VINTAGES, due in part to the success of the Wines of the Month and VINTAGES *FOOD & DRINK* Discovery programs (see below).

VINTAGES makes products available through the following programs:

Retail Releases: this core program makes up 62 per cent of sales ($117 million in fiscal 2004-05). Every two weeks, some 100 new products in a wide range of price points are made available in 190 select LCBO stores. More than half of the selection is new to the Ontario consumer. VINTAGES Releases regularly highlight a particular country, region, sub-region, producer or varietal and have been revamped to include more educational material tied to release products.

Essentials: a core group of 85 world-renowned and popular brands that are continuously available in the LCBO retail network. Sales of Essentials products were $46 million – 24.5 per cent of VINTAGES' business – and 25 per cent higher than last year.

Bordeaux Futures: an opportunity for customers to buy fine Bordeaux classified growths, before they are bottled, usually at a significant discount to the eventual release price. Sales in fiscal 2004-05 were $5.3 million – 2.8 per cent of VINTAGES' business – and 40.7 per cent lower than last year. (Results vary widely year to year depending on the perceived quality of vintages being offered.)

VINTAGES' *Classics Catalogue*: offers more than 1,000 new and unique products annually, including limited allocations from prestigious estates, acclaimed older vintages and other rarities. Published three times a year, the catalogue accounted for $16.6 million in sales in fiscal 2004-05 – 8.7 per cent of VINTAGES' business.

VINTAGES Wines of the Month: highlights two featured products priced between $15 and $22. It's designed to introduce customers to wines that offer exceptional value at little or no risk. Sales this year were $6.0 million – 3.2 per cent of VINTAGES' total business – and 9.4 per cent higher than last year.

VINTAGES *FOOD & DRINK* Discovery: a new program launched in June 2004 to bring exceptional "Discoveries" by VINTAGES buyers to a new and expanded audience through the LCBO consumer publication *FOOD & DRINK*. The five products released this year had sales of more than $2.5 million.

Auction: In November 2004, VINTAGES staged Ontario's third commercial wine auction with Ritchie's Auctioneers & Appraisers, giving collectors a rare opportunity to buy or sell fine wines. More than 90 per cent of the 1,552 lots on offer were sold, bringing in a total of $2.3 million.

Events: more than 3,000 people attended VINTAGES events and tastings in fiscal 2004-05. These ranged from small winemakers' dinners to large-scale tastings where participants could buy on-site the products they tasted. VINTAGES events generated $750,000 in sales this year.

VINTAGES VQA Discoveries: VINTAGES now features a different VQA wine from Ontario or B.C. 10 times a year, priced between $15 and $20. VQA Discoveries had sales of $325,000 this year.

Virtual VINTAGES: allows a customer to buy ultra-premium and rare products, many in larger formats, directly from our suppliers' cellars. This provides our customers with greater overall selection with no added investment in inventory on our part. Sales in fiscal 2004-05 were $3.9 million – an increase of 7.4 per cent over last year.

OUTLOOK FOR 2005-06

- net sales projected to increase to $192.3 million
- margin dollars projected to increase to $82.4 million
- sales of Ontario VQA table wines projected to increase 10 per cent, Icewine by 15 per cent
- VINTAGES Releases to be issued bi-weekly beginning in August 2005
- VINTAGES will continue to work with the Retail division to improve the way its products are merchandised.

FINANCIAL OVERVIEW

KEY INDICATORS:

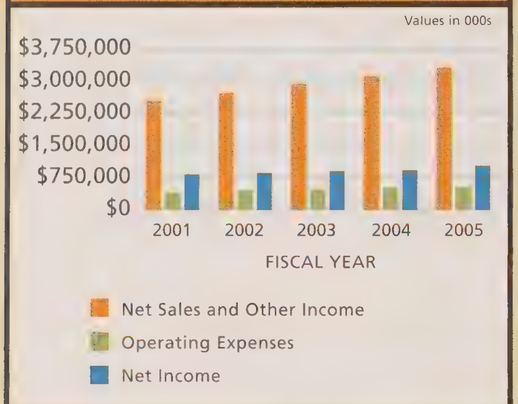
The following table lists three of the most important variables related to the operations of the LCBO: number of stores, permanent employees and regular products listed.

OPERATIONS

	2001	2002	2003	2004	2005
Number of LCBO Stores	600	599	597	598	597
Number of Permanent Employees	3,174	3,225	3,362	3,320	3,352
Number of Regular Products Listed	3,478	3,487	3,476	3,449	3,349

The critical financial variables of net sales and other income, operating expenses and net income are given in the following table.

FINANCIAL INDICATORS: 2001-2005

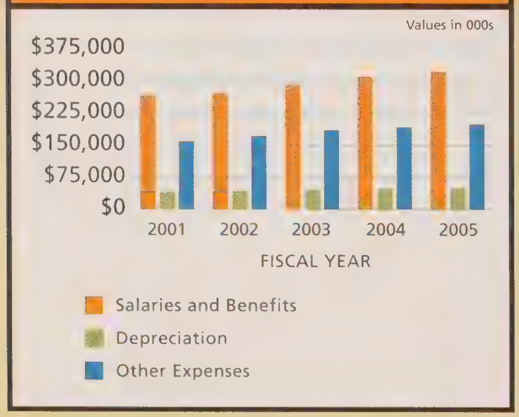


FINANCIAL (VALUES IN $000s)

	2001	2002	2003	2004	2005
Net Sales and Other Income	2,734,937	2,939,563	3,119,240	3,320,681	3,532,171
% Change/Previous Year	7.28%	7.48%	6.11%	6.46%	6.37%
Operating Expenses	468,090	489,633	525,959	548,778	575,336
As a % of Net Sales & Other Income	17.12%	16.66%	16.86%	16.53%	16.29%
Net Income	876,272	920,912	939,542	1,045,428	1,146,810
As a % of Net Sales & Other Income	32.04%	31.33%	30.12%	31.48%	32.47%

Note: The LCBO refers to sales in three different ways: first, gross sales, which include the federal Goods and Services Tax and the Provincial Sales Tax; second, net sales, which exclude the two sales taxes and any relevant discounts (e.g., the discounts provided to licensees by the LCBO); and third, net sales also excluding any sales through the LCBO Private Stock Program. The Net Sales and Other Income line in the table consists of net sales plus any other income (e.g., interest on investments). Gross sales are given in the LCBO Sales Channel Summary on page 32.

OPERATING EXPENSES: 2001-2005



BREAKDOWN OF OPERATING EXPENSES (VALUES IN $000s)

	2001	2002	2003	2004	2005
Salaries and Benefits	266,929	272,594	291,762	305,664	322,094
Depreciation	40,546	44,260	47,602	49,917	50,703
Other Expenses	160,615	172,779	186,595	193,197	202,539
Total Operating Expenses	468,090	489,633	525,959	548,778	575,336

The following tables show the breakdown of LCBO revenue payments for the last five years to the federal, provincial and municipal governments.

REVENUE PAYMENTS

RECEIVER GENERAL FOR CANADA (VALUES IN $000s)

	2001	2002	2003	2004	2005
Remitted by the Liquor Control Board:					
Excise taxes and Customs duties	278,430	284,520	294,203	307,366	308,514
Goods and Services Tax (GST)	79,056	84,885	97,459	103,464	119,444
Remitted by others:					
Excise taxes, GST and other duties/taxes	361,917	355,868	303,508	347,231	329,810
GST remitted on sales through agency stores	2,244	2,349	3,264	4,423	5,294
Total	**721,647**	**727,622**	**698,434**	**762,484**	**763,063**

TREASURER OF ONTARIO (VALUES IN $000s)

	2001	2002	2003	2004	2005
Remitted by the Liquor Control Board:					
on account of profits	850,000	905,000	975,000	1,040,000	1,115,000
Remitted by the Liquor Control Board:					
Ontario Retail Sales Tax on sales of liquor	255,347	275,072	288,884	308,134	328,753
Remitted by the Alcohol and Gaming Commission:*					
on account of licence fees and permits	524,110	530,799	526,650	487,589	488,988
Remitted by others:**					
Ontario Retail Sales Tax on sales through Beer Stores and Ontario Winery Retail Stores	177,302	186,308	194,320	196,733	197,890
Ontario Retail Sales Tax on sales through agency stores	3,847	4,027	5,596	7,582	9,076
Total	**1,810,606**	**1,901,206**	**1,990,449**	**2,040,037**	**2,139,707**

ONTARIO MUNICIPALITIES (VALUES IN $000s)

	2001	2002	2003	2004	2005
Remitted by the Liquor Control Board:					
realty taxes***	11,121	12,003	11,253	12,280	13,678
Total Revenue Payments	**2,543,374**	**2,640,831**	**2,700,136**	**2,814,801**	**2,916,447**

* The Alcohol and Gaming Commission of Ontario, The Beer Store and Ontario winery stores are separate, non-LCBO businesses.

** Revenue payments from these entities are recorded by the LCBO and presented here in the interest of providing a global perspective of beverage alcohol retailing in Ontario.

*** Note: includes property taxes on leased properties.

LCBO VOLUME SALES (VALUES IN 000s OF LITRES)

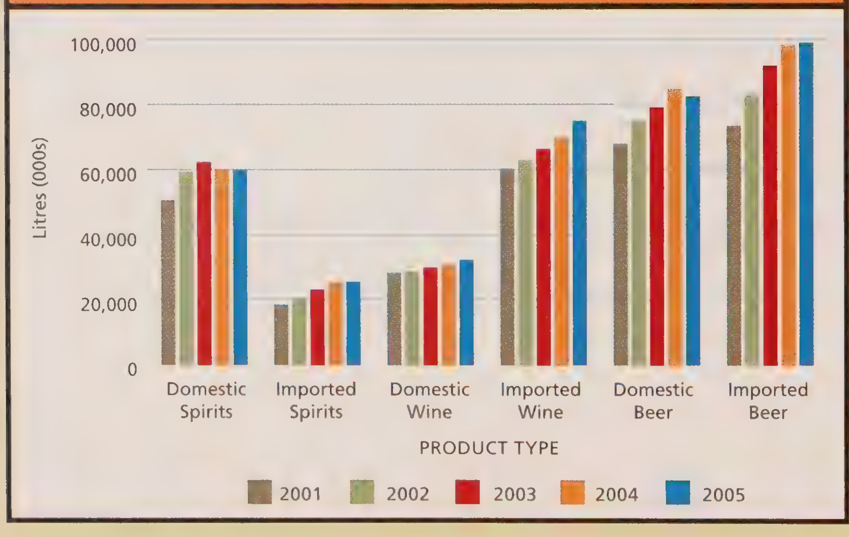
PRODUCT TYPE	2001	2002	2003	2004	2005
Domestic Spirits	34,286	33,897	33,570	33,704	33,754
Imported Spirits	18,369	19,085	19,557	20,301	21,191
Total Spirits	**52,655**	**52,982**	**53,127**	**54,005**	**54,944**
Domestic Wine	28,190	28,445	29,912	30,964	32,528
Imported Wine	60,258	63,076	66,504	70,062	75,150
Total Wine	**88,448**	**91,521**	**96,416**	**101,025**	**107,678**
Domestic Beer	67,677	75,045	79,289	84,950	82,273
Imported Beer	73,688	83,212	91,909	98,352	99,228
Total Beer	**141,365**	**158,258**	**171,198**	**183,302**	**181,501**
Domestic Spirit Coolers	16,789	25,791	29,076	26,910	26,569
Imported Spirit Coolers	482	1,781	3,877	5,333	4,710
Domestic Wine Coolers	499	549	426	233	136
Imported Wine Coolers	368	263	228	253	236
Domestic Beer Coolers	627	363	108	168	581
Imported Beer Coolers	68	125	332	304	51
Total Coolers	**18,833**	**28,872**	**34,047**	**33,200**	**32,282**
Total Domestic	**148,068**	**164,091**	**172,381**	**176,930**	**175,840**
Total Imported	**153,233**	**167,542**	**182,407**	**194,603**	**200,565**
Total	**301,301**	**331,633**	**354,787**	**371,532**	**376,406**

PRODUCT TYPE	2001	2002	2003	2004	2005
Sales by Ontario Winery Stores	14,926	16,235	16,720	17,327	17,920
Sales by The Beer Store and On-site Brewery Stores	643,721	654,017	656,093	660,077	651,593

Note: The 2005 figures for sales by The Beer Store (TBS) and on-site stores are unaudited and understate total sales due to several brewers not reporting financial statements at the time of publication. LCBO beer sales figures include LCBO sales to TBS. Of LCBO's total beer sales litres, 47,947,000 were sales to TBS. Prior year figures have been restated.

SHARE OF VOLUME SALES

LCBO SALES VOLUME BY PRODUCT TYPE: 2001-2005



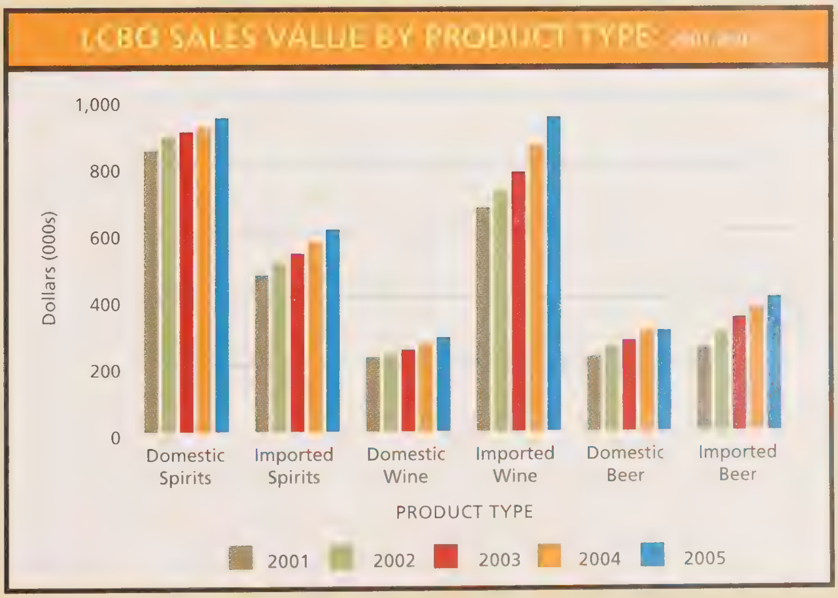
SHARE OF VALUE SALES

LCBO VALUE SALES (VALUES IN $000s)

PRODUCT TYPE	2001	2002	2003	2004	2005
Domestic Spirits	765,840	764,465	761,892	781,353	809,302
Imported Spirits	470,874	499,645	516,510	541,882	582,440
Total Spirits	**1,236,714**	**1,264,110**	**1,278,402**	**1,323,235**	**1,391,741**
Domestic Wine	223,510	231,411	245,972	263,396	284,158
Imported Wine	671,633	721,127	780,390	859,107	945,402
Total Wine	**895,143**	**952,538**	**1,026,362**	**1,122,502**	**1,229,560**
Domestic Beer	224,273	254,271	274,262	303,662	301,607
Imported Beer	252,096	296,752	340,900	372,231	403,456
Total Beer	**476,369**	**551,023**	**615,163**	**675,892**	**705,063**
Domestic Spirit Coolers	81,231	125,018	141,747	133,457	136,221
Imported Spirit Coolers	2,704	10,136	21,083	29,151	26,968
Domestic Wine Coolers	1,954	2,147	1,617	914	552
Imported Wine Coolers	2,010	1,442	1,261	1,402	1,309
Domestic Beer Coolers	2,073	1,203	421	826	2,762
Imported Beer Coolers	264	537	1,547	1,201	213
Total Coolers	**90,236**	**140,483**	**167,675**	**166,951**	**168,024**
Total Domestic	**1,298,882**	**1,378,516**	**1,425,911**	**1,483,607**	**1,534,600**
Total Imported	**1,399,580**	**1,529,639**	**1,661,691**	**1,804,974**	**1,959,788**
Non Liquor and Other	**15,863**	**12,141**	**10,087**	**9,316**	**10,995**
Total	**2,714,325**	**2,920,296**	**3,097,690**	**3,297,897**	**3,505,383**

PRODUCT TYPE	2001	2002	2003	2004	2005
Sales by Ontario Winery Stores	123,739	137,994	146,502	153,621	164,153
Sales by The Beer Store and On-site Brewery Stores	2,072,360	2,181,920	2,254,756	2,311,230	2,312,479

Note: Value sales listed above for the LCBO and Ontario Winery Stores consist of net sales. Sales values for The Beer Store (TBS) consist of net sales plus GST. Category totals produced here include sales through VINTAGES and the LCBO Private Stock Program, and therefore do not match the totals found in the Product Trends sections of this Annual Report. LCBO beer sales figures include LCBO sales to TBS. Of LCBO's total beer sales, $199,827,000 were sales to TBS. Prior year figures have been restated.



PRODUCT LISTINGS

	2001	2002	2003	2004	2005
DOMESTIC					
Spirits	550	486	460	472	430
Wine	499	481	469	432	434
Beer	407	426	444	473	433
IMPORTED					
Spirits	636	675	652	691	680
Wine	1,111	1,163	1,187	1,124	1,143
Beer	283	256	264	257	229
Total Regular Listings	**3,486**	**3,487**	**3,476**	**3,449**	**3,349**
Vintages Wines and Spirits	3,108	2,858	3,127	4,250	4,464
Duty-Free Listings	212	224	240	221	229
Consignment Warehouse and Private Stock	6,225	5,444	6,813	7,286	8,204
Total Product Listings	**13,031**	**12,013**	**13,656**	**15,206**	**16,246**

Note: Product listing figures for Consignment Warehouse and Private Stock are estimated based on invoices produced by Specialty Services. The total does not include products discontinued during the fiscal year.

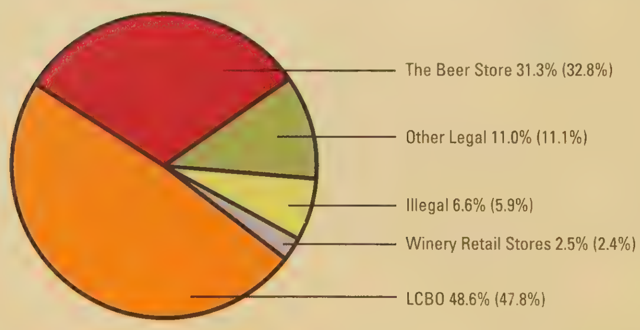
LCBO SALES CHANNEL SUMMARY (VALUES IN $000s)

	2001	2002	2003	2004	2005
LCBO Total Sales	3,177,916	3,417,729	3,622,049	3,857,394	4,101,684
Brewers Retail Total Sales	2,381,289	2,522,993	2,607,077	2,638,488	2,639,319
Winery Retail Stores	147,178	162,539	174,284	182,349	195,280
OTHER CHANNELS					
Legal	1,000,660	1,017,104	957,073	667,687	702,261
Homemade	49,025	48,013	50,852	148,163	157,301
De-alcoholized Beer	20,870	20,191	19,125	20,503	17,293
Illegal	405,918	432,435	455,529	442,971	523,572
Grand Total	**7,182,857**	**7,621,004**	**7,885,989**	**7,957,555**	**8,336,711**

The methodology used to estimate certain categories under Other Channels was revised in 2004. Prior year figures have not been restated. Sales values reported under Other Channels are estimated using the average retail price for spirits, wine and beer sold under the LCBO, WRS and TBS respectively.

Note: All figures above are shown in gross sales. The numbers included in the Other Channels category are estimates. LCBO and Brewers Retail figures are slightly overstated due to reciprocal sales included in the totals. These sales are excluded in the chart below. Last year's market share appears in brackets.

SHARE OF ONTARIO BEVERAGE MARKET (2003-04 SHARE IN BRACKETS)

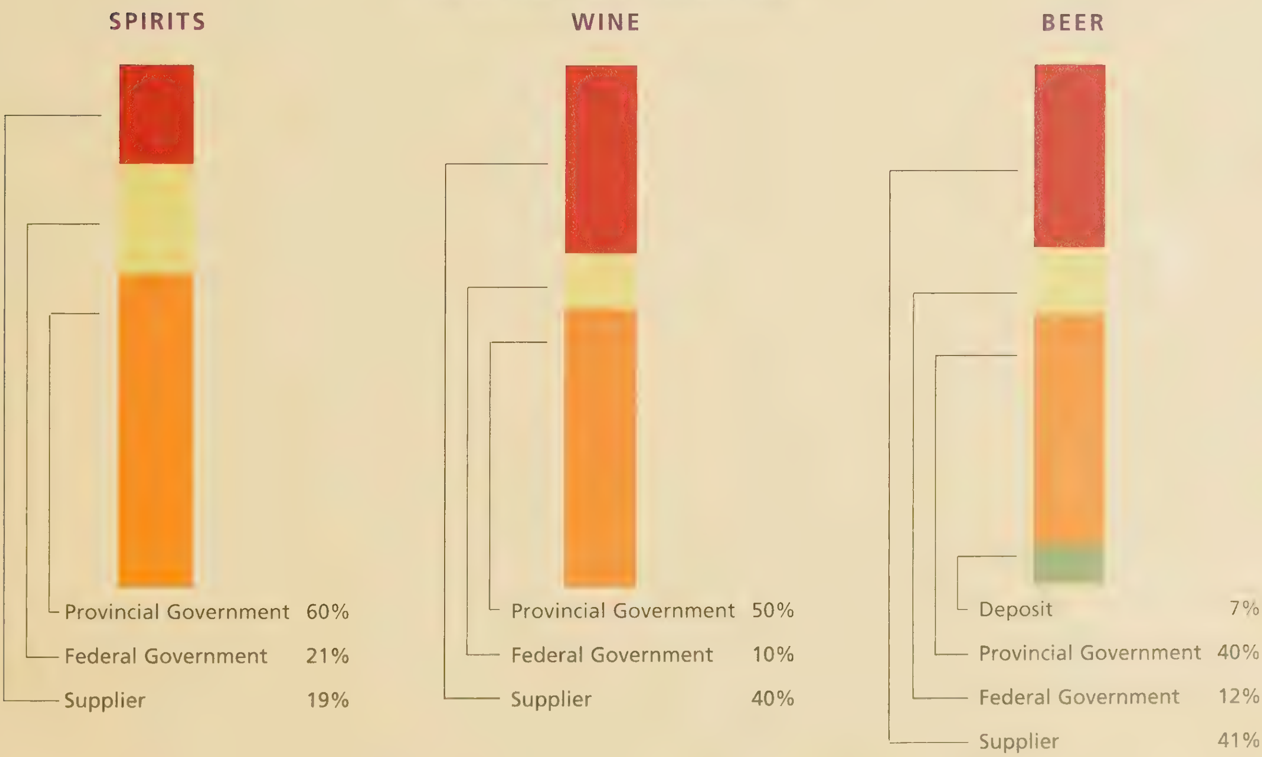


AVERAGE LCBO NET SALES PER LITRE (PRICES EXCLUDE GST AND PST)

PRODUCT TYPE	2001	2002	2003	2004	2005
Spirits	$23.49	$23.86	$24.06	$24.50	$25.33
Wine	$10.12	$10.41	$10.65	$11.11	$11.42
Beer	$3.37	$3.48	$3.59	$3.69	$3.88
Average Transaction Value Per Customer	$30.51	$31.05	$31.90	$32.97	$34.52

Note: Includes Coolers

REVENUE DISTRIBUTION



PRODUCT CATEGORY SHARE BY VOLUME

CANADIAN SPIRITS	2001	2002	2003	2004	2005
Canadian Whisky	22.2%	19.0%	17.4%	17.6%	17.6%
Canadian Rum	10.7%	9.3%	8.6%	8.7%	8.7%
Canadian Vodka	10.7%	9.4%	8.9%	9.1%	9.1%
Canadian Liqueur	2.0%	1.8%	1.9%	2.1%	2.3%
Spirit Coolers	24.1%	32.1%	33.9%	31.3%	30.9%
Canadian Dry Gin	1.5%	1.2%	1.0%	0.9%	0.9%
Other	2.1%	1.4%	1.2%	0.8%	0.6%
IMPORTED SPIRITS					
Scotch	5.4%	4.7%	4.4%	4.5%	4.6%
Liqueur	4.8%	4.0%	3.7%	3.7%	3.6%
Miscellaneous Liquors	3.6%	3.6%	3.5%	3.2%	3.4%
Vodka	4.3%	4.0%	4.1%	4.3%	4.8%
French Brandy	2.4%	2.1%	2.0%	2.1%	2.1%
Spirit Coolers	0.7%	2.2%	4.5%	6.2%	5.5%
Other	5.6%	5.2%	4.9%	5.7%	6.0%
Total Spirits (000s litres)	**69,726**	**80,363**	**85,856**	**86,062**	**86,035**
CANADIAN WINES					
White Table	15.4%	15.2%	14.9%	14.9%	14.6%
Red Table	8.2%	8.2%	8.5%	9.0%	9.2%
Rosé Table	0.8%	0.8%	0.9%	1.0%	1.0%
7% Sparkling	1.8%	1.7%	1.6%	1.5%	1.4%
Fortified	1.8%	1.7%	1.6%	1.5%	1.5%
Wine Coolers	0.6%	0.6%	0.5%	0.2%	0.1%
Other	3.4%	2.6%	2.0%	1.6%	1.3%
IMPORTED WINES					
White Table	25.6%	25.1%	24.4%	23.7%	22.9%
Red Table	31.5%	32.8%	34.3%	35.7%	37.6%
Rosé Table	2.7%	2.5%	2.3%	2.0%	1.7%
Sparkling	2.4%	2.4%	2.4%	2.3%	2.2%
Fortified	2.3%	2.1%	2.0%	1.9%	1.8%
Wine Coolers	0.4%	0.3%	0.2%	0.3%	0.2%
Other	3.7%	4.2%	4.5%	4.9%	4.7%
Total Wine (000s litres)	**85,848**	**88,809**	**91,608**	**96,342**	**102,077**
CANADIAN BEER					
Ontario Beer	45.2%	44.0%	41.7%	40.8%	42.3%
Other Canadian Beer	6.0%	6.4%	7.2%	8.2%	5.6%
IMPORTED BEER					
U.S. Beer	15.2%	12.5%	11.6%	9.8%	8.9%
Other Imported Beer	33.5%	37.1%	39.4%	41.1%	43.1%
Saké	0.1%	0.1%	0.1%	0.1%	0.1%
Total Beer (000s litres)	**128,784**	**144,665**	**157,173**	**168,101**	**164,827**
Total (000s litres)	**284,358**	**313,837**	**334,637**	**350,505**	**352,939**

Notes: These figures exclude Private Stock orders and other head office sales.

PRODUCT CATEGORY SHARE BY VALUE

CANADIAN SPIRITS	2001	2002	2003	2004	2005
Canadian Whisky	26.9%	25.4%	24.4%	24.3%	23.9%
Canadian Rum	12.7%	12.1%	11.7%	11.6%	11.5%
Canadian Vodka	12.7%	12.2%	12.1%	12.2%	12.2%
Canadian Liqueur	2.1%	2.1%	2.3%	2.5%	2.7%
Spirit Coolers	6.2%	9.0%	9.9%	9.0%	8.8%
Canadian Dry Gin	1.8%	1.6%	1.4%	1.2%	1.2%
Other	2.0%	1.3%	1.1%	0.9%	0.7%
IMPORTED SPIRITS					
Scotch	8.5%	8.2%	8.0%	8.0%	8.0%
Liqueur	6.7%	6.3%	6.0%	5.9%	5.7%
Miscellaneous Liquors	5.1%	5.7%	5.7%	4.9%	5.0%
Vodka	4.8%	5.0%	5.3%	5.6%	6.3%
French Brandy	3.8%	3.7%	3.9%	3.9%	3.8%
Spirit Coolers	0.2%	0.7%	1.5%	2.0%	1.7%
Other	6.4%	6.6%	6.6%	8.0%	8.5%
Total Spirits ($000)	**1,314,263**	**1,392,692**	**1,433,253**	**1,483,032**	**1,551,321**
CANADIAN WINES					
White Table	12.3%	11.9%	11.6%	11.3%	10.5%
Red Table	6.7%	6.7%	6.9%	7.1%	7.2%
Rosé Table	0.6%	0.6%	0.6%	0.7%	0.7%
7% Sparkling	1.1%	1.0%	1.0%	0.9%	0.8%
Fortified	1.3%	1.2%	1.1%	1.0%	1.0%
Wine Coolers	0.2%	0.2%	0.2%	0.1%	0.0%
Other	2.5%	1.9%	1.6%	1.4%	1.7%
IMPORTED WINES					
White Table	24.4%	23.9%	23.1%	22.3%	22.0%
Red Table	38.1%	40.0%	41.8%	43.5%	44.9%
Rosé Table	2.3%	2.1%	1.9%	1.6%	1.3%
Sparkling	4.5%	4.4%	4.4%	4.2%	4.2%
Fortified	2.7%	2.5%	2.3%	2.2%	2.1%
Wine Coolers	0.2%	0.2%	0.1%	0.1%	0.1%
Other	3.2%	3.5%	3.6%	3.7%	3.5%
Total Wine ($000)	**857,960**	**913,281**	**972,246**	**1,056,979**	**1,151,035**
CANADIAN BEER					
Ontario Beer	44.0%	42.2%	39.6%	38.7%	[illegible]
Other Canadian Beer	5.5%	6.0%	6.7%	7.7%	[illegible]
IMPORTED BEER					
U.S. Beer	12.3%	10.6%	10.0%	8.3%	7.8%
Other Imported Beer	37.8%	40.9%	43.4%	45.0%	46.8%
Saké	0.4%	0.3%	0.3%	0.3%	0.4%
Total Beer ($000)	**448,855**	**521,534**	**584,149**	**641,364**	**653,391**
Total ($000)	**2,621,078**	**2,827,508**	**2,989,647**	**3,181,375**	**3,355,746**

Notes: These figures exclude Private Stock orders and other head office sales.

The following tables shows LCBO spirits, wine and beer sales by country of origin for fiscal 2004–05.

SPIRITS 2004–05

COUNTRY	NET SALES	LITRES
CANADA	$945,295,569	60,303,106
GREAT BRITAIN	$187,583,749	9,466,090
U.S.A.	$71,369,792	3,267,936
FRANCE	$94,695,396	2,762,987
IRELAND	$57,053,811	2,043,472
SWEDEN	$41,898,897	1,831,499
ITALY	$33,461,265	1,357,276
MEXICO	$33,887,752	1,084,032
GERMANY	$18,419,512	709,930
NEW ZEALAND	$4,298,017	532,878
FINLAND	$11,573,507	491,674
POLAND	$8,285,179	320,421
AUSTRALIA	$1,480,615	271,454
BARBADOS	$5,062,165	198,049
RUSSIAN FEDERATION	$4,652,327	188,391
GREECE	$4,175,408	183,344
JAMAICA	$4,837,836	182,710
NETHERLANDS	$3,252,153	149,566
SOUTH AFRICA	$3,638,917	141,727
SWITZERLAND	$2,969,540	96,570
CUBA	$1,939,736	71,500
CROATIA	$997,861	37,553
PORTUGAL	$987,968	36,803
BERMUDA	$893,637	35,873
SPAIN	$854,811	33,137
HUNGARY	$690,263	27,782
PUERTO RICO	$825,957	21,938
GUYANA	$582,139	20,392
REPUBLIC OF YUGOSLAVIA	$603,908	20,200
AUSTRIA	$921,034	18,844
DENMARK	$350,821	17,668
LEBANON	$436,529	15,442
DOMINICAN REPUBLIC	$442,449	14,536
BAHAMAS	$366,844	11,680
CZECH REPUBLIC	$939,204	10,185

SPIRITS CONTINUED

COUNTRY	NET SALES	LITRES
PEOPLE'S REPUBLIC OF CHINA	$261,486	8,620
INDIA	$197,545	8,274
CHILE	$202,618	8,054
BRITISH VIRGIN ISLANDS	$158,727	7,760
UKRAINE	$193,122	7,376
TRINIDAD	$192,870	4,950
ISRAEL	$77,878	3,411
TURKEY	$96,197	3,226
MACEDONIA	$71,443	2,861
BRAZIL	$64,012	2,177
PHILIPPINES	$38,420	1,608
SAINT LUCIA	$28,383	1,345
BULGARIA	$12,684	427
COLOMBIA	$13,741	319
BELGIUM	$6,670	246
GUATEMALA	$4,402	45
BOLIVIA	$50	3
TOTAL	**$1,551,344,816**	**86,037,347**

WINE 2004–05

COUNTRY	NET SALES	LITRES
CANADA	$252,900,228	29,614,271
ITALY	$196,796,945	17,029,346
FRANCE	$199,968,116	15,003,731
AUSTRALIA	$210,195,079	14,416,003
U.S.A.	$103,424,351	8,970,260
CHILE	$52,096,874	4,827,648
SOUTH AFRICA	$26,661,850	2,481,676
PORTUGAL	$24,762,411	1,980,220
SPAIN	$24,973,278	1,892,116
GERMANY	$20,456,847	1,886,332
GREAT BRITAIN	$4,555,046	970,618
ARGENTINA	$7,870,869	771,617
NEW ZEALAND	$12,543,666	680,526
GREECE	$4,190,632	504,202
HUNGARY	$3,284,311	399,869
BULGARIA	$1,929,296	233,750
REPUBLIC OF YUGOSLAVIA	$926,733	111,201
JAPAN	$1,096,344	80,076
ISRAEL	$783,081	66,063
IRELAND	$222,035	56,488
CROATIA	$545,690	51,902
MEXICO	$466,445	39,430
ROMANIA	$328,285	33,763
JAMAICA	$333,408	33,189
POLAND	$387,215	27,784
AUSTRIA	$415,746	27,518
MACEDONIA	$178,160	24,615
DENMARK	$201,763	17,086
REPUBLIC OF KOREA	$314,759	13,852
GEORGIA	$130,392	8,412
LEBANON	$120,634	7,395
URUGUAY	$75,936	5,560
CYPRUS	$54,681	4,480
RUSSIAN FEDERATION	$62,088	3,509
SWITZERLAND	$59,830	2,356
LUXEMBOURG	$21,340	1,063
JORDAN	$4,268	242
TUNISIA	$2,938	177
CZECH REPUBLIC	$2,716	121
SLOVENIA	$1,295	107
PEOPLE'S REPUBLIC OF CHINA	$784	72
REPUBLIC OF MOLDOVA	$393	35
MOROCCO	$29	4
TOTAL	**$1,153,346,787**	**102,278,685**

BEER 2004–05

COUNTRY	NET SALES	LITRES
CANADA	$293,737,587	79,035,535
NETHERLANDS	$82,625,107	18,595,113
MEXICO	$79,184,759	16,795,317
U.S.A	$51,437,054	14,670,580
GERMANY	$32,467,633	8,851,926
BELGIUM	$31,078,854	6,715,674
IRELAND	$15,727,095	3,359,819
GREAT BRITAIN	$14,006,427	3,273,861
DENMARK	$10,977,717	3,120,150
POLAND	$10,241,422	2,811,925
CZECH REPUBLIC	$7,846,716	2,096,202
BRAZIL	$6,100,335	1,244,396
JAMAICA	$1,995,185	444,620
FRANCE	$1,765,955	421,472
AUSTRIA	$1,222,731	386,302
TRINIDAD	$1,460,723	351,995
PEOPLES REPUBLIC OF CHINA	$1,314,734	337,004
SLOVAKIA	$1,199,439	330,725
SINGAPORE	$668,207	198,449
JAPAN	$742,971	190,260
SOUTH AFRICA	$574,481	168,019
RUSSIAN FEDERATION	$555,547	166,939
PORTUGAL	$611,759	164,772
UKRAINE	$556,201	152,476
ITALY	$510,379	120,403
LITHUANIA	$374,883	107,836
NEW ZEALAND	$338,068	83,387
THAILAND	$307,417	76,663
CUBA	$274,254	62,968
CROATIA	$221,795	60,164
LATVIA	$163,824	46,644
PHILIPPINES	$201,795	44,343
HUNGARY	$120,233	32,611
GREECE	$129,366	31,051
KENYA	$133,507	27,948
INDIA	$44,532	10,986
CYPRUS	$42,865	9,887
AUSTRALIA	$32,109	7,516
SLOVENIA	$23,461	6,984
VIETNAM	$22,891	5,353
TAIWAN	$14,6[illegible]	4,960
BAHAMAS	$167	43
TOTAL	**$651,054,834**	**164,623,278**

Note: Net value represents net sales including VINTAGES sales but excluding Private Stock sales. In fiscal 2004-05, the LCBO sold products from 73 different countries.

AUDITOR'S REPORT

To the Liquor Control Board of Ontario and to the Minister of Economic Development and Trade:

I have audited the balance sheet of the Liquor Control Board of Ontario as at March 31, 2005 and the statements of income and retained income and cash flows for the year then ended. These financial statements are the responsibility of the Board's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Board as at March 31, 2005 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Ontario
June 24, 2005

J.R. McCarter, CA
Auditor General

BALANCE SHEET AS AT MARCH 31, 2005

ASSETS (IN $000S)	2005	2004
CURRENT		
Cash and cash equivalents	106,273	60,724
Accounts receivable, trade and others	23,700	28,436
Inventories	278,267	270,246
Prepaid expenses	11,371	5,812
	419,611	**365,218**
LONG-TERM		
Capital assets (Note 5)	223,709	227,504
	643,320	**592,722**
LIABILITIES AND RETAINED INCOME		
CURRENT		
Accounts payable and accrued liabilities	315,241	298,755
Current portion of accrued benefit obligation (Note 3)	4,981	4,924
	320,222	**303,679**
LONG-TERM		
Accrued benefit obligation (Note 3)	37,462	35,217
Retained income	285,636	253,826
	643,320	**592,722**

Commitments and Contingencies (Notes 6 and 8)
See accompanying notes to financial statements.

Approved by:

Andrew S. Brandt
Chair and Chief Executive Officer

Jean Simpson
Board Member; Chair, Audit and Governance Review Committee

STATEMENT OF INCOME AND RETAINED INCOME

YEAR ENDED MARCH 31, 2005 (IN $000S)	2005	[illegible]
Sales and other income	**3,532,171**	**3,320,681**
COST AND EXPENSES		
Cost of sales	1,810,025	1,726,475
Retail stores and marketing	387,410	373,978
Warehousing and distribution	71,131	67,470
Administration	66,092	57,413
Amortization	50,703	49,917
	2,385,361	**2,275,253**
Net income for the year	1,146,810	1,045,428
Retained income, beginning of year	253,826	248,398
	1,400,636	**1,293,826**
Deduct		
Dividend paid to the Province of Ontario	1,110,000	1,035,000
Payment to municipalities on behalf of the Province of Ontario (Note 9)	5,000	5,000
	1,115,000	**1,040,000**
Retained income, end of year	**285,636**	**253,826**

See accompanying notes to financial statements.

STATEMENT OF CASH FLOWS

YEAR ENDED MARCH 31, 2005 (IN $000S)	[illegible]	[illegible]
[illegible]		
Net income	1,146,810	1,045,428
Amortization	50,703	49,917
Loss (Gain) on sale of capital assets	(2,114)	(234)
	1,195,399	**1,095,111**
[illegible]		
Working capital	7,642	8,628
Accrued benefit obligation	2,302	2,742
	1,205,343	**1,106,481**
[illegible]		
Purchase of capital assets	(47,465)	(53,434)
Proceeds from sale of capital assets	2,671	1,292
	(44,794)	**(52,142)**
[illegible]		
Dividend paid to the Province of Ontario	(1,110,000)	(1,035,000)
Payment to municipalities on behalf of the Province of Ontario	(5,000)	(5,000)
	(1,115,000)	**(1,040,000)**
Increase (decrease) in cash during the year	45,549	14,339
Cash and cash equivalents, beginning of year	60,724	16,385
Cash and cash equivalents, end of year	**106,273**	**60,724**

See accompanying notes to financial statements.

1. NATURE OF THE CORPORATION

The Liquor Control Board of Ontario (Board) is a corporation without share capital incorporated under the *Liquor Control Act*, R.S.O. 1990, Chapter L.18. The corporation is a government enterprise responsible for regulating the production, importation, distribution and sale of alcoholic beverages in the Province of Ontario. As an Ontario Crown Corporation, the Board is exempt from income taxes under Section 149(1)(d) of the *Canadian Income Tax Act*. The Board transfers most of its profits to the Province of Ontario's Consolidated Revenue Fund in the form of a dividend.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting

The Board's financial statements are prepared in accordance with Canadian generally accepted accounting principles.

(b) Cash and Cash Equivalents

Cash and cash equivalents comprise cash, and highly liquid investments with original maturity dates of less than 90 days.

The Board's investment policy restricts short-term investments to high liquidity, high grade money market instruments such as federal/provincial treasury bills, banker's acceptances and term deposits.

(c) Inventories

Inventories are valued at the lower of cost and net realizable value with cost being determined by the moving average cost method.

(d) Capital Assets

Major capital expenditures with a future useful life beyond the current year are capitalized at cost and are amortized on a straight-line basis according to their estimated useful lives, as follows:

Buildings	20 years
Furniture and Fixtures	5 years
Leasehold Improvements	5 years
Computer Equipment	3 years

Minor capital expenditures and expenditures for repairs and maintenance are charged to income.

(e) Revenue Recognition

Revenue is recognized when the sale of products is made to customers.

(f) Expense Recognition

Expenses are recognized as incurred, on an accrual basis, in the period to which they relate.

(g) Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. ACCRUED BENEFIT OBLIGATION

The accrued benefit obligation includes accruals for employee termination payments and unfunded workers compensation obligation.

In fiscal 2005, the cost of these employee future benefits was $7.7 million (2004 – $7.5 million) and is included in Cost and expenses in the Statement of Income and Retained Income. The accrued benefit obligation as at March 31, 2005 is $42.4 million (2004 – $40.1 million) of which $5.0 million (2004 – $4.9 million) is classified as a current liability.

The cost of post-retirement, non-pension employee benefits is paid by Management Board Secretariat and is not included in the Statement of Income and Retained Income.

4. PENSION PLAN

The Board provides pension benefits for all its permanent employees (and to non-permanent employees who elect to participate) through the Public Service Pension Fund (PSPF) and the Ontario Public Service Employees' Union Pension Fund (OPSEU Pension Fund) which are multi-employer defined-benefit pension plans established by the Province of Ontario. These plans are accounted for as defined contribution pension plans as the Board has insufficient information to apply defined-benefit plan accounting. The expense represents the Board's contributions to the plans during the year.

In fiscal 2005, the expense was $14.7 million (2004 – $13.8 million) and is included in Cost and expenses in the Statement of Income and Retained Income.

5. CAPITAL ASSETS

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Land	13,223		13,223	13,473
Buildings	318,104	215,520	102,584	94,199
Furniture and fixtures	67,218	42,229	24,989	28,457
Leasehold improvements	194,137	132,660	61,477	64,148
Computer equipment	92,818	71,382	21,436	27,227
	685,500	**461,791**	**223,709**	**227,504**

6. LEASE COMMITMENTS

The Board is committed under operating leases on leased premises with future minimum rental payments due as follows:

	[illegible]
2006	37,791
2007	36,040
2008	33,560
2009	30,359
2010	25,882
Thereafter	199,561
	363,193

7. HEDGING

The Board has entered into forward foreign exchange contracts to manage the foreign exchange risk associated with its purchases from foreign suppliers. A forward foreign exchange contract is an agreement between two parties to set exchange rates in advance.

As at March 31, 2005 the Board had $2.5 million (2004 – $4.9 million) forward foreign exchange contracts outstanding.

Credit risk is the risk that a party to a forward foreign exchange contract will fail to discharge its obligation and cause the Board to incur financial loss. The Board minimizes credit risk by only dealing with major Canadian chartered banks and Canadian subsidiaries of major foreign banks.

8. CONTINGENCIES

The Board is involved in various legal actions arising out of the ordinary course and conduct of business. The outcome and ultimate disposition of these actions are not determinable at this time. Accordingly, no provision for these actions is reflected in the financial statements. Settlements, if any, concerning these contingencies will be accounted for in the period in which the settlement occurs.

9. PAYMENT TO MUNICIPALITIES

During fiscal 2005, in accordance with Section 5(2) of the *Liquor Control Act*, 1990, the Board was directed by Cabinet to contribute $5 million (2004 – $5 million) to assist municipalities with their glass recycling costs. Cabinet further directed the Board to contribute $5 million in fiscal 2006. In subsequent years, the LCBO's contribution will be determined by methods to be established under Section 30(1) of the *Waste Diversion Act*, 2002.

BOARD MEMBERS

Members of the LCBO Board, like those of other government agencies, boards and commissions, are appointed by the sitting government through Orders-in-Council. Appointments, up to five years, are sometimes renewed.

ANDREW S. BRANDT:
Appointed February 6, 1991.
Term expires February 2006.

Re-appointed in 2003 for a fifth three-year term as Chair and CEO, Mr. Brandt came to the LCBO after a long and distinguished career in the private and public sectors. He began his public-service career in Sarnia, where he served on City Council for almost a decade, including three terms as mayor. In 1981, he was elected to the Ontario Legislature as MPP for Sarnia and in 1987 was named Leader of the Ontario Progressive Conservative Party, a post he held until 1990. In the private sector, Mr. Brandt ran a successful wholesale and retail musical instrument business for many years. He is also an active and award-winning volunteer in several community organizations, including the United Way, Rotary Club, Kiwanis Club and Lambton College Foundation. During his tenure as Chair and CEO, Mr. Brandt has played a key role in the transformation of the LCBO from staid government bureaucracy to award-winning retailer, reflected in 10 straight record dividend transfers to the government of Ontario.

PHILIP OLSSON:
Appointed June 17, 2004.
Term expires June 2007.

Mr. Olsson is Vice Chair of the LCBO. A partner in K J Harrison & Partners Inc., a privately-held investment firm, he has had a 30-year career as an investor and investment and commercial banker. Past positions have included directing the private equity groups at a large mutual fund company and a chartered bank, and Vice Chairman of RBC Dominion Securities, Canada's largest investment bank. He holds BA and MBA degrees from Vanderbilt University and studied monetary economics as a postgraduate at the London School of Economics. He is a director of a number of private companies and has long been active in community and civic affairs on behalf of such organizations as the United Way, Wilfrid Laurier University, the Shaw Festival and Trout Unlimited.

Also serving in fiscal 2004–05

GAYLE CHRISTIE:
Appointed June 13, 2001.
Term expired June 2004.

PERRY MIELE:
Appointed April 3, 2002.
Term expired April 2005

JEAN SIMPSON:
Appointed November 3, 2004.
Term expires November 2007.

Ms. Simpson has had a lifelong interest in mental health, beginning her career as a nurse and moving into management at the Clarke Institute of Psychiatry and Women's College Hospital in Toronto. She then became Director of Mental Health Programs and Services at the Ministry of Health, returning to the Clarke Institute as Executive Vice President and COO and subsequently Executive Vice President and Chief Operating Officer of the Centre for Addiction and Mental Health when it was created in 1998. She retired in June, 2003, but has continued her work in mental health through membership of the boards of the Ontario Women's Health Council, which advises the Minister of Health on women's health issues, and the Ontario Council of Alternative Businesses, a not-for-profit organization with a provincial mandate to develop alternative businesses owned and operated by psychiatric survivors and consumers of the mental health system. As a former COO, she also coaches senior business executives.

DR. LINDA BRAMBLE:
Appointed July 5, 2004.
Term expires July 2007.

Dr. Bramble is a wine writer and broadcaster, tour guide and former professor in wine appreciation at the Cool Climate Oenology and Viticulture Institute at Brock University in St. Catharines. Among several other books, she has written two about Ontario wine country: *Discovering Ontario's Wine Country* and *Touring Niagara Wine Country*. Dr. Bramble is a former lecturer in philosophy and education at Brock University and Concordia University in Montreal and a program director with the Niagara Institute, a think tank bringing together leaders from business, labour, government and academia, now part of the Conference Board of Canada. A frequent contributor to wine publications and radio shows, Dr. Bramble has hosted a cooking and wine-matching show on the Niagara cable TV channel and has taken tour groups to wine regions in Tuscany and Umbria.

BEV HAMMOND:
Appointed September 26, 2002.
Term expires September 2005.

Ms. Hammond is President of Veritas Communications, an award-winning Toronto public relations and public affairs agency. Before joining Veritas, she was President of Communiqué Public Relations and Director of PR at Grey Canada. She combines her agency work with experience in both the federal and provincial governments. She has been senior advisor to the federal Minister of International Trade, with responsibility for bilateral trade, and advisor to the Minister of Small Business and Tourism, as well as Communications Director and Press Secretary to Ontario's Deputy Premier and Minister of Finance, and Executive Assistant to the Government House Leader. She serves on the board, and is Chair of the Marketing Committee for Special Olympics Canada. She is also Chair of the Advisory Board of Hammond Transportation.

RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of the Liquor Control Board of Ontario have been prepared in accordance with accounting principles generally accepted in Canada, and are the responsibility of management. The preparation of financial statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The financial statements have been properly prepared within reasonable limits of materiality and in light of information available up to June 24, 2005.

Management is responsible for the integrity of the financial statements and maintains a system of internal controls designed to provide reasonable assurance that the assets are safeguarded and that reliable financial information is available on a timely basis. The system includes formal policies and procedures and an organizational structure that provides for appropriate delegation of authority and segregation of responsibilities. An internal audit function independently evaluates the effectiveness of these internal controls on an ongoing basis and reports its findings to management and the Audit and Governance Review Committee of the Board.

The Board, through the Audit and Governance Review Committee, is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Audit and Governance Review Committee, comprised of three Members who are not employees/officers of the LCBO, generally meets periodically with management, the internal auditors and the Office of the Auditor General to satisfy itself that each group has properly discharged its respective responsibility.

The financial statements have been audited by the Office of the Auditor General. The Auditor's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with generally accepted accounting principles. The Auditor's Report (page 38) outlines the scope of the Auditor's examination and opinion.

On behalf of management:

Andrew S. Brandt
Chair & Chief Executive Officer

J. C. Browning

J. Alex Browning
Senior Vice President, Finance & Administration, and Chief Financial Officer
June 24, 2005

SENIOR MANAGEMENT TEAM 2004-05

Bob Peter	*President and Chief Operating Officer*
Jackie Bonic	*VP, Store Development & Real Estate*
Alex Browning	*Senior VP, Finance & Administration*
Tamara Burns	*VP, Merchandising*
Nancy Cardinal	*VP, Marketing Communications*
Bob Downey	*Senior VP, Sales and Marketing*
Roy Ecker	*Senior VP, Retail Operations*
Mary Fitzpatrick	*Senior VP, General Counsel & Corp. Sec.*
Murray Kane	*Senior VP, Human Resources*
Hugh Kelly	*Senior VP, Information Technology*
Bill Kennedy	*Executive Director, Corporate Communications*
Gerry Ker	*Executive Director, Corporate Policy*
Ian Martin	*Senior VP, Logistics*
Barry O'Brien	*Director, Corporate Affairs*
Dr. George Soleas	*VP, Quality Assurance*
Shelley Sutton	*Director, Strategic Planning*
Tom Wilson	*VP, VINTAGES*

Trading customers up to premium products is part of the LCBO's strategy to grow its business in a responsible manner.

DIVIDEND TO GOVERNMENT $1.115B

INCREASE IN DIVIDEND TO GOVERNMENT 7.2%

NET SALES AND OTHER INCOME $3.532B

INCREASE IN NET SALES 6.4%

NET INCOME $1.146B

INCREASE IN NET INCOME 9.7%